

CONSEIL DE L'ATLANTIQUE NORD  
NORTH ATLANTIC COUNCIL

EXEMPLAIRE N° 336  
COPY

N A T O C O N F I D E N T I A L

ORIGINAL: ENGLISH  
5th May, 1972

C-M(72)24  
Volume Two

CONFERENCE ON SECURITY AND CO-OPERATION  
IN EUROPE

Report by the Chairman of the Political Committee  
at Senior Level

ECONOMIC CO-OPERATION

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NATO,  
1110 Brussels.

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N A T O C O N F I D E N T I A L

ECONOMIC CO-OPERATION

A. OUTLINE OF POSSIBLE PROPOSALS

I. RATIONALE FOR INCLUSION ON AGENDA

1. It is generally agreed that the expansion of economic relations affords useful opportunities to broaden channels of communication between East and West and might contribute to a further lessening of political tensions. Differences in the economic, institutional and legal systems of the East and the West, though posing serious problems, need not be insurmountable obstacles to the further development of co-operation in the commercial, financial, industrial and other fields.

2. Progress has been made in recent years in the reduction of barriers to East/West economic relations on a bilateral basis, and there have also been extensive discussions in this respect on the multilateral level. However, the present volume of East/West trade remains small and does not reflect the full production or trade potential of the two regions.

3. The further expansion of East/West economic relations can only be based on the principle of mutual advantage. This would require the granting of appropriate concessions by both sides and the removal as far as possible of existing obstacles to economic co-operation, thereby permitting an acceleration of the growth of East/West trade.

4. Discussion of the economic Agenda of a Conference on Security and Co-operation in Europe should provide an opportunity to identify existing obstacles to East/West economic co-operation and to provide the impetus for practical negotiations, in bilateral or multilateral fora, for their elimination or reduction.

II. DESCRIPTION OF SPECIFIC MEASURES

All parties should agree to discuss:

1. In the Field of Trade

(a) Improved access to markets

Practical steps should be taken to facilitate the exchange of trade and technical data and of foreign trade plans, to improve contacts between producers and end-users, provide adequate communications, banking and office facilities, to encourage trade promotional activities and, in general, to improve the climate and conditions for foreign businessmen in their respective countries. Similarly, business contacts through such channels as joint chambers of commerce, trade missions, commercial attachés and consulates should be facilitated.

(b) Better adaptation of exports to market conditions

Norms and standards should be further harmonized. Additional information could be exchanged about pricing mechanisms in order to overcome fears of dumping practices. Reciprocal arrangements for training officials responsible for foreign trade in business and commercial practice should be made.

(c) Acceptance of private arbitration

In East/West trade disputes there should be more widespread acceptance of private arbitration tribunals functioning on a multilateral basis. (This would include procedures of the International Chamber of Commerce in Paris or those available on a third-country basis, such as the Chambers of Commerce of Zurich and Stockholm.)

2. In the Field of Industrial Co-operation

- (a) It should be understood that, in the West, realisation of the potential for East/West joint ventures in the development and processing of natural resources and in manufacturing projects depends, in the final analysis, on the initiative and scope for action of industry.
- (b) In this context, acceptable operating conditions should be provided for Western participants in joint industrial co-operation projects.
- (c) Moreover, successful efforts to eliminate existing obstacles to East/West economic and technological exchange discussed in other contexts of the economic Agenda of a CSCE will have a salutary impact on East/West co-operation in this area as well. These efforts include the fostering of the freer movement of technicians and research workers, uniform protection and treatment of holders of industrial property rights, etc.

3. In the Field of Financial Co-operation

The growth of commercial exchanges and the development of industrial co-operation should entail a corresponding development of practical arrangements to finance joint East/West projects.

B. GUIDELINES

I. CO-OPERATION IN THE FIELD OF TRADE

- I/1. Further opening up of Eastern markets to Western products
- I/2. Improvement in information available to Western exporters on trade opportunities in Eastern Europe
- I/3. Practical measures to improve the quality and design of Eastern export products
- I/4. Improved arbitration procedures in European Communist countries for settlement of commercial disputes with nationals of other countries
- I/5. Response to complaints by Communist countries about Western tariffs
- I/6. Allied response to a request for modification of COCOM lists
- I/7. Response to complaints by Communist countries on Western quantitative restrictions (QRs)
- I/8. Accession to GATT of additional Communist countries
- I/9. Diversification of Eastern imports from the West

II. INDUSTRIAL CO-OPERATION

- II/1. Development of industrial co-operation
- II/2. Co-operation with the Soviet Union to develop Soviet oil and gas resources
- II/3. Exchange of electric power with East European countries and the USSR
- II/4. Development of co-operation in the transport field
- II/5. Signature by all parties to a CSCE of the Universal Copyright Convention and the Berne Convention
- II/6. Improved protection in European Communist countries of Western industrial property rights

III. FINANCIAL CO-OPERATION

- III/1. Development of East/West financial co-operation
- III/2. Encouragement of the Eastern countries to seek participation in the International Monetary Fund (IMF)
- III/3. Creation of a mechanism for multilateral settlement

GUIDELINE I/1(1)

I. FURTHER OPENING UP OF EASTERN MARKETS TO WESTERN PRODUCTS

II. PROBLEM

1. State trading, central planning and the closed character of the Eastern societies create obstacles to an expansion of the sales of Western goods on Eastern markets. It would, however, appear possible, within the existing system in the East, to alleviate some of these difficulties. Among the practical problems are:

A. Access to Communist countries for representatives of Western firms

2. The practice of the Communist countries as regards granting visas to Western businessmen for temporary visits with the specific purpose of arranging commercial transactions seems fairly liberal. Nevertheless, there have been complaints about slowness or difficulties in particular cases where no specific prior invitation from the potential Eastern buyer was at hand(2).

3. The possibilities for foreign companies of setting up permanent sales offices in Communist countries are severely restricted or non-existent. This is so in Bulgaria, Czechoslovakia and probably in Hungary too(3). In the GDR it is in principle possible to obtain authorisation to set up a sales office, but the criteria for granting such authorisation have not been published. Polish officials have indicated that they will

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- (1) Revised version of ED/EC/72/17(Revised) (Note No. 7) in the light of comments received from the United Kingdom, the United States, Canada, Denmark and the Netherlands.
- (2) For instance, as regards visits of United States businessmen to Poland (United States reply to an ECE questionnaire. ECE document Trade/249, Addendum 1). Unlike most other Eastern states, Romania requires alien firms to obtain authorisation from the Ministry of Foreign Trade as a prerequisite to negotiation. However, in practice the willingness of a local entity to pursue contacts seems to be regarded as evidence of the Government's implicit approval. It may be noted that some trade agreements such as the one between Canada and the Soviet Union contain provisions to the effect that the competent authorities of the two Governments will facilitate visits for business purposes between the two countries.
- (3) In any case, no foreign firm had been allowed to establish an agency or market research office in Hungary as of 1st September, 1970.

readily consider applications for technical representation but applications for sales offices are apparently subject to stricter criteria. The Romanian Government, in a decree issued in January 1971, authorised foreign commercial firms to establish offices in Romania. However, as of 1st January, 1972 this legislation was still untested. In all these countries state agencies undertake the commercial representation of foreign firms on a commission basis.

4. In the USSR this last possibility does not exist, but foreign firms are permitted to register an agent with the Ministry of Foreign Trade. Authorisation to do so has, however, only been granted to some 35 West European and Japanese firms. The authorities have refused to reveal what criteria they follow in deciding whether or not a firm should be allowed to set up an office in Moscow. When pressed, they have mentioned trade turnover figures ranging from \$10 million to \$50 million. A number of factors, not all of them economic or related to trade, seem to influence the decision to allow or refuse a foreign firm accreditation.

5. At the November 1971 session of the Committee on the Development of Trade of the United Nations Economic Commission for Europe, many delegations considered that the proposal for an examination of the possibility of guidelines on business representation merited further study(1).

B. Access to end-users

6. Traditionally, Communist countries carry out trade through specialised export/import corporations which act in accordance with the Foreign Trade Plan. This is still largely the case in the USSR, whereas in East European countries a varying number of larger enterprises have been authorised to conduct their purchases and sales abroad themselves. It is generally considered that the possibilities of trade would be enhanced if Western businessmen had better access to the people who actually use their products.

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(1) ECE document Trade/114, paragraph 19

7. Western traders meet considerable difficulties in obtaining access to end-users, but these vary from country to country and from case to case. They are particularly great in the USSR(1).

C. Chambers of Commerce

8. All of the Communist countries maintain a national chamber of foreign commerce(2). In addition, the USSR has established joint chambers of commerce in countries such as the United Kingdom, Italy, France and Belgium. The Franco-Soviet Chamber maintains offices with mixed staffs not only in Paris but also in Moscow.

9. The establishment of more joint chambers of commerce with offices with mixed staffs in Eastern countries might augment the possibilities of Western businessmen obtaining relevant information and contacts in the East.

D. Commercial attachés, consular relations, activities of trade missions and trade fairs

10. An increase in the number of Western commercial attachés in the Eastern countries and expanded consular services might be conducive to more trade. This is, however, a matter which could be better dealt with in a bilateral rather than a multilateral context.

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- (1) In that country, access is described as "virtually an impossibility" in the United Kingdom reply to an ECE questionnaire (ECE document Trade/249, Annex I, page 10). In the United States reply Poland is, besides the USSR, singled out as a country where central authorities often refuse businessmen access to end-users (ECE document Trade/249, Addendum 1). In the negotiations on their accession to GATT, the Hungarians declared that contacts between traders from non-Communist countries and Hungarian end-users were restricted by no regulation, but that the end-user was allowed to pursue only "the activities that belong to their sphere of operation, consequently they may pursue foreign trade activity only if they are authorised to do so".
- (2) The functions of such chambers include establishment of relations with corresponding foreign organizations, sponsorship of trade fairs, provision of market information, insurance of certificates of origin, certification of quality after expert examination of products, and maintenance of procedures for the resolution of commercial differences.

11. The exchange of trade missions and Western participation in trade fairs in the Communist countries(1) has played a considerable rôle in East/West trade and is likely to continue to do so. There does not seem to be any particular problem in connection with these aspects of East/West trade.

III. PROPOSALS

The West might seek to obtain:

- (i) that the Agenda of the Conference or of any Working Group discussing Economic Co-operation includes a reference to the need for improved facilities for Western businessmen in Communist countries (including the right to set up offices and the access to end-users);
- (ii) that any declaration on East/West Economic Co-operation that might be issued by the Conference includes a reference to the matters in (i) above;
- (iii) that the participating governments decide to seek agreement, in the framework of the ECE, on guidelines on business representation;
- (iv) that a possible declaration by the Conference on East/West economic co-operation should contain references to:
  - (a) the advantage which pairs of countries would have in setting up joint chambers of commerce, manned in each country by joint staffs;
  - (b) the desirability of facilitating the work of commercial attachés and consuls and their contacts with industry and commerce.

A. Advantages for the West

The closer contacts between Western firms and those responsible for preparing foreign trade plans in the Eastern countries, as well as the end-users, might lead to an improvement in the flow of information on market requirements and trading opportunities. Such contacts may also increase the possibilities of influencing the final foreign trade plans by calling the

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- (1) Regular international fairs are held in all the East European countries (Leipzig, GDR; Brno, Czechoslovakia; Budapest, Hungary; Poznan, Poland; Plovdiv, Bulgaria; Bucharest, Romania). Moreover, several countries and in particular the USSR organize specialised exhibitions from time to time.

attention of the Eastern authorities to the advantages of specific products at the time the plan is being worked out. Possible results, however, should not be over-estimated. The level of trade with non-Communist countries is determined by planners, taking into account foreign currency availabilities and political considerations. With the possible exception of Hungary, which at present is the only Warsaw Pact country trying out on a limited scale a modified way of running the economy, more contacts with the outside are unlikely to exercise more than a very marginal influence. Moreover, the extensive control system in Communist countries makes it possible for them to accept principles or legal engagements and yet make sure that they have no practical consequences; a right to permanent presence in a country is of limited interest unless it can be ensured that the state authorities make available the necessary office space. The extreme shortage of office space, as well as the high cost of maintaining representatives in East European countries, have discouraged many Western firms which prefer to rely on frequent visits by Western-based employees. Nevertheless, a number of firms continue to be desirous of opening offices in the East. In order to obtain commitments as specific as possible, it is important to prepare carefully, in the light of the experience of practical businessmen, any guideline or declaration which might be proposed to the East.

B. Disadvantages for the West

In accepting an undertaking in this field Communist countries, which already enjoy very liberal access to Western markets, might be inclined to ask for further concessions, and some Western countries are apprehensive about a commitment which could compel them to accept the creation or expansion of organizations controlled by Eastern states in their countries. This is an area where asymmetrical concessions might be appropriate. Western countries need not accept any increase in the existing disparity to their own detriment.

IV. RECOMMENDATION

That the proposal in III above be adopted.

V. TALKING POINTS

- (1) In the USSR and perhaps in the East European countries Western firms which have tried to establish sales agencies have met with difficulties.
- (2) In this respect CEMA countries enjoy far greater freedom of activity in the West. The above proposal can therefore be considered as a simple matter of reciprocity.

- (3) Better facilities for Western firms are also in the interest of Communist countries, because they would enable Western countries to provide better service for Communist clients, such as maintenance, training programmes, steady supply of spare parts, etc.
- (4) Direct contact between the seller and the end-user has advantages for both parties. The screen represented by the Communist countries' export/import firms makes it difficult for Western firms to ascertain and meet in full the needs of those who will use their products. For their part, the Eastern end-users have only an incomplete knowledge of the variety of Western goods and services which the foreign exporters are able to provide, but it must be recognised that such improvement of end-user knowledge may not be seen as in the interests of state planners.
- (5) In as much as Western countries are prepared to accept Eastern nationals on the staff of joint chambers of commerce established on their territory, reciprocity from Communist countries in this regard should be the rule.
- (6) Difficulties have been encountered in hiring suitably qualified local staff in the Eastern countries. Advertising for staff is not authorised, and the state agencies do not always provide personnel of the required calibre. Eastern authorities might be urged to show more flexibility in this respect.

GUIDELINE I/2. (1)

I. IMPROVEMENT IN INFORMATION AVAILABLE TO WESTERN EXPORTERS ON TRADE OPPORTUNITIES IN EASTERN EUROPE

II. PROBLEM

1. Western efforts to substantiate both exports and industrial co-operation are considerably hindered by the serious practical gaps in information available to Western exporters to Eastern Europe.

A. Information on trade available in the West

2. The paucity of quantified macro-economic data on trade possibilities with the East can best be assessed if a brief comparison is made with information sources available to Western exporters operating outside the Soviet bloc. Such sources include:

3. (a) International Organizations: For example, EFTA, OECD, ECE, UNCTAD, GATT - the latter two bodies sponsoring the International Trade Centre (Geneva). These provide through reports and other publications comprehensive statistical and non-statistical data on export markets, marketing information services, trade promotion, planning priorities, product specifications, long-term trends, international trading practices, etc.
- (b) National/private banks: These make available through personal consultation and published documentation specific and detailed information on market requirements, industrial and raw material trends, price fluctuations, currency oscillations, credit facilities, taxation regulations, insurance, transport, etc., contractual patterns (e.g. bilateral clearing arrangements) and, frequently, depth market surveys on foreign companies.
- (c) National Chambers of Commerce: Located in the foreign countries, these offer a similar type of service to that of national/private banks, plus advice on co-production facilities, planning, local labour problems, establishment of inter-company contacts, etc.

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(1) Revised ED/EC/72/27 (Note No. 11) in the light of comments from Canada.

- (d) Foreign Trade Ministries: Services include information on national accounting, data on projected national economic plans, statistical data on current economic performance, etc.
- (e) General and specialist press reports
- (f) Economic/commercial newsletters: All carry reports on new trade developments overseas, trade regulations, analyses of market situations, company reports, etc.
- (g) Companies themselves, most of which issue, at least, semi-annual or annual reports on output targets, raw material needs, import trends, etc.
- (h) Commercial attachés: Located in national embassies or consulates, they provide information on local trade conditions, arrange inter-company link-ups, data on local regulations regarding duties, contract requirements, etc.

B. Available Western sources on Eastern markets

- 4. (a) Comprehensive statistics on Western trade with Eastern Europe are published by most OECD members in reports such as: Commerce International (France), The Board of Trade Journal (UK), Information du Commerce Extérieur (Belgium) and Nachrichten für Aussenhandel (FRG). Statistics on Canadian trade with Eastern Europe are available in the Canadian publication "Trade with Canada".
- (b) Publications of international organizations: for example, the UNCTAD Monthly Bulletin and the Handbook of International Trade and Development, the GATT annual reports, containing special studies of trade patterns in Eastern Europe (e.g. Trade of the Eastern Trading Area in 1968).
- (c) Business journals and newspapers: Enterprise (France), Business Week (USA), Financial Times (UK), Handelsblatt (FRG) among others cover economic developments in Eastern Europe, including frequently practical on-the-spot reports in the Eastern countries by visiting businessmen.
- (d) Economic bulletins: for example, Le Courrier des Pays de l'Est (France), Nachrichten für Aussenhandel and Ost-West Marketing Informationen (FRG) and Business Europe (Switzerland). These tend to be concerned more with trends in marketing practices and techniques for Eastern Europe and trade regulations.

- (e) Specialised commercial publications: This group comprises such reviews as The American Review of East-West Trade and Spezialprobleme des Osthandels (Switzerland).

5. The practical drawbacks of the above mentioned sources are that they seldom differentiate between the trading practices that might be found in one Eastern European country, but not in another, they are not updated with sufficient frequency to take account of the latest changes in trade regulations and are often too general to be of any real interest to a Western exporter, who requires very detailed country and sector orientated data. Market research on the Eastern countries is largely academic, and only seldom based on field research.

C. Available Communist sources of trade information

6. There are five main categories of data on which the Western exporter should inform himself. These are:

- (a) Production and consumption targets;
- (b) Production plans;
- (c) Inter-CEMA exports;
- (d) Planners' priorities;
- (e) Product specifications.

The ease with which the data for each category can be obtained from first hand Communist sources, and the degree of accuracy and detail, vary considerably from country to country, a factor which tends to cause undue delay in negotiations and contractualisation. Like Western sources on Eastern trade possibilities, the gaps here relate to enterprise-based data, information on the end-user, changes in market conditions, etc.

7. (a) Statistical sources: All CEMA members publish foreign trade statistics which vary greatly in completeness and detail. Only the USSR and Poland include both value and quantity data; the export/import statistics of the other members are given either in value or quantitative terms. Sometimes, a country will use both for the same type of goods, giving the imports of certain items in value and of others in quantitative terms. Such sources include: Foreign Trade of the People's Republic of Bulgaria, appearing annually in English, the Statistical Yearbook (Sofia) also in English; Facts on Czechoslovak Foreign Trade, annually in English, Statistisches Jahrbuch (DDR), annually in German,

Monthly Bulletin of Statistics in Hungarian and English, Foreign Trade Statistics (Poland) annually in Polish with English supplement, Annual Statistical R.P. Romane, annually in Rumanian, Vneshnyaya Torgoveya (Foreign Trade) (USSR), monthly in English.

- (b) Another important source of official statistics is the economic, industrial and Party press, which frequently carries reports on the given country's progress under its current Five Year Plan, its annual plan and its foreign trade plan - the three basic components shaping the foreign trade plan of each East European country. It is by no means rare for an East European journal to publish a short item on the anticipated failure to meet a planned target due to a shortage of a certain material or unavailability of equipment: this may be taken as a good indication that the unavailable goods may be imported. The Party press is the best source for statistics containing annual plan performance, while the periodicals devoted to individual industries are most likely to give statistics on import needs and current production trends. Principal press organs include: Planovo Stopanstvo (Economic Planning), a Bulgarian bi-monthly; Czechoslovak Economic Bulletin (in English), a bi-annual; Der Aussenhandel (DDR), a bi-monthly; Közgazdasági Szemle (Economic Review), a Hungarian monthly; Polish Foreign Trade, a monthly in English; Probleme Economice (Rumania), a monthly review; Planovoye Khozyaistvo (USSR), a monthly on economic planning.

8. (a) Non-statistical Data: Standard compilations of foreign trade data are issued by the Chamber of Commerce on Foreign Trade in each Eastern country. These listings are frequently issued annually. Such publications include: the Bulgarian Foreign Trade Directory (annual), Czechoslovak Foreign Trade (monthly), GDR Economic Review (monthly), Directory of Hungarian Foreign Trade Companies (annual), Marketing in Hungary (quarterly), Handel Zagraniczny (Foreign Trade) (a monthly in Polish), Economic and Commercial Guide to Rumania (annual), Soviet Export (bi-monthly).
- (b) General Economic and Commercial Press: All CEMA members issue a weekly economic newspaper, a monthly review of foreign trade, and at least one commercial journal, presenting foreign products new to the home market, and reporting on

international trade developments, trade and currency regulations. This category is the most fruitful for data on the areas given in paragraph 5. Unfortunately, such journals and press organs once again fail to provide sufficient detail to enable the exporter to ascertain current and upcoming import requirements.

- (c) Industrial and Technical Press: This category is the main source of specific data on the production plans and import needs of each CEMA member, as well as their consumption targets and planning priorities. However, a key element lacking here is the absence of information on the import requirements of specific industries as such, and, of course, of specific end-users. There are thousands of such journals published throughout the CEMA complex which makes it almost impossible for the Western exporter to know which one(s) he should monitor. Another disadvantage of this category is the fact that they appear normally only in the national language with no Western language summaries, and that they are edited basically for the technically trained reader.
- (d) Specialised Commercial Publications for Domestic Distribution: These tend to appear irregularly and frequently are issued in conjunction with a given country's trade fair. Their prime function is to publicise the products of foreign exporters, who are trying to enter the market, and are, therefore, slanted towards Foreign Trade Organization officials, enterprise managers and buyers from national distribution organizations. Unfortunately, this category also appears in the national language, which makes it relatively non-functional for the Western exporter. Moreover, it covers new commercial opportunities in the Eastern markets in a very generalised manner.

### III. PROPOSALS

9. Taking into account the fact that the Eastern countries have such strong demands as:

- (a) import of high-technology products;
- (b) extension of long-term delivery credits to East European customers on sales of machinery and equipment;
- (c) further multilateralisation of payments;

- (d) increased use of long-term trade agreements;
- (e) development of new forms of industrial, scientific and technological collaboration,

West could endeavour to obtain the following:

- (i) far greater detail in sectorial breakdown on plan targets, profits, foreign exchange availability, price categories, bilateral clearing arrangements, licensing requirements, quantitative restrictions, export embargoes, administrative procedures;
- (ii) more information on the functions of foreign trade organizations, operational guidelines, product responsibility;
- (iii) more detailed documentation on changes in market conditions and available marketing channels through bimonthly fact sheets, issued by the end-users themselves;
- (iv) greater clarity in statistics reporting by the Eastern countries;
- (v) direct negotiations/discussions between Western exporters and end-users on specific contracts. This is obviously valuable both in terms of technical documentation and feasibility discussions in the negotiating stage, and in terms of co-ordination in the operational stage and on Western after-sales service;
- (vi) more regular visits of groups of Western exporters to meet end-users interested in Western imports;
- (vii) extension of practice of joint Chambers of Commerce in Eastern capitals;
- (viii) attempts to simplify divergences in East-West systems of foreign trade classifications.

A. Advantages for the West

10. Such proposals could lead to improved conditions for the Western exporter to the Eastern market, especially in terms of simplifying administrative procedures and accelerating negotiations. The greatest problem of the Western exporter is his difficulty in obtaining up-to-date and comprehensive trade and market data on the CEMA complex, particularly on the USSR -

the largest CEMA exporter and importer to the West (1971: imports of 2.8 milliard dollars). Implementation of such proposals, i.e. CEMA acceptance, would indicate a more pragmatic attitude to imports from the West which could well spill over into other areas, e.g. foreign policy. Naturally, such proposals are closely linked with such questions as how far economic reforms will be permitted to go in Eastern Europe, and the extent to which politico-ideological considerations will be the decisive factors placing limits on continued expansion of East-West trade in general.

B. Disadvantages for the West

11. No great foreseeable drawback for the West, unless Moscow uses acceptance of the principle of greater access to CEMA trade and commercial data as a lever to force through a more liberal set of trading conditions, especially with the EEC, and this is unlikely. However, one recent disturbing development in the CEMA bloc is the announcement by the Czechoslovak Government (reported 3rd March, 1972) that the divulging of economic data, including both Federal and national plans, budgets, import and export plans and information on raw materials is now considered a violation of the law on "State secrets". A similar injunction by the Rumanian authorities was issued on 15th February, 1972. Hopefully these moves do not imply a stiffening of attitude by CEMA in the trade information sector. Certainly, they do not reflect the kind of flexibility needed in this area, if East-West trade is to develop.

IV. RECOMMENDATION

That the proposals in III be adopted.

V. TALKING POINTS

- (1) Greater freedom of action for Western commercial attachés located in Eastern capitals, in arranging inter-company contacts, making on-the-spot visits, etc.
- (2) More flexibility in the present arbitrary, monocentric economic control system, so as to reduce delay and red tape in negotiations, contractual agreements, etc. This would be an important factor in diminishing the serious lack of confidence which tends to prevail among Western exporters to the Eastern countries.

- (3) Creation in Eastern capitals of Western sponsored export officers, representing allied groups of Western companies, in an attempt to co-ordinate efforts by Western companies to attract exports, and concurrently to provide up-to-date trade data on the Eastern markets for interested exporters. They should be given freedom of movement to co-ordinate import needs with the end-users themselves.

GUIDELINE I/3 (1)

I. PRACTICAL MEASURES TO IMPROVE THE QUALITY AND DESIGN OF EASTERN EXPORT PRODUCTS

II. PROBLEM:

1. It is becoming increasingly recognised that the lack of harmonised international standards, a system for international acceptance of national quality assurance standards and inadequate Eastern marketing techniques can be a serious obstacle to trade, especially as regards goods from the CEMA bloc. The salient problems would appear to centre around three areas:

(a) Harmonisation of norms and standards

2. Although countries both in Western and Eastern Europe are members of the International Standardization Organization (ISO), there is a tendency - much stronger in Eastern Europe - for the application of standards and the problem of quality certification to be dealt with in sub-regional groupings and this results in undue compartmentalization of trade.

3. There are serious divergences between the Eastern and Western approach to the handling of goods which complicate the marketing of Eastern products in the West. The divergencies include technical performance and standards, quality, design, model, specifications, finish, labelling, etc.

4. The need for a broader transfer of technology to Eastern Europe from the West, and, thereby, the realisation of harmonisation of Eastern standards with Western, is patent. For years now, the structure of industry in all countries in Eastern Europe has been undergoing a rapid change occasioned by the development of more sophisticated production branches - chemistry, electronics and plastics. Existing production lines from textiles to motor vehicles are in need of modern designs and up-to-date production techniques in order to measure up to Western standards.

5. Differences in the form and presentation of Eastern documentation prevent the creation of standardized East-West contracts and a uniform reference system, as well as bilateral acceptance of procedures on automatic data processing and codes for use in trade documentation.

(b) Improvement of marketing techniques

6. At present, marketing conditions are such that it is not possible for the Eastern countries to take advantage of the trade potential that exists in the West.

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(1) Revised ED/EC/72/29, (Note No. 12) in the light of comments by the United Kingdom.

7. The marketing problems that arise in importing from the Eastern countries relate in part to unsatisfactory knowledge of the products that the CEMA bloc can offer the West; consequently, Western importers cannot exploit fully existing opportunities.

8. In addition, it is necessary for the producers in the CEMA area to collect relevant information about Western markets in order to enable them fully to adapt their products to demand in the West.

9. The Eastern countries appear to be as yet insufficiently aware that an important prerequisite for greater trade towards the West is the need for more active marketing, and that, given the characteristics of modern industrial production, exports depend not only on the capacity to guarantee continuous supplies of large volumes of goods of uniform quality, but also on sustained sales efforts, backed by effective servicing facilities. To date, the Eastern countries lack adequate sales contacts and distribution networks of the sophisticated type needed for the sale of their manufactures in the West.

(c) Training in Western business and commercial practice

10. This problem area is closely integrated with the above-mentioned issues of harmonisation and improved marketing practices. There is an urgent need to rationalise Eastern commercial practice and procedures and equate them with the Western patterns.

11. A serious drawback to a more rapid development of exports to the West is the lack of adequate Eastern technical communications. Areas such as postal services, telephone, telegraph and telex links, and visa formalities are urgently in need of improvement.

III. PROPOSALS

12. The following measures could be suggested. Some of these are already being implemented by individual Western governments and by international organizations such as WHO, FAO, ISO and the ECE, but it is premature to assess results on the basis of recent commercial experience:

- (i) the Agenda of the Conference or of any Working Group on Economic Co-operation should include a reference to the need for a common East-West approach to facilitation problems, and a common methodology for their solution;
- (ii) standardization of data contained in international trade documents, the development of a standard trade terminology and uniform codes of trade information for use in modern methods of data transmission and processing;

- (iii) ad hoc expert groups on techniques of Western trade promotion;
- (iv) seminars on marketing courses, including knowledge of market, market research, sales organization, and sales supporting measures (advertising, exhibitions, etc.); the Swedish Wholesalers' Association for example, has already conducted such courses for Hungarian exporters;
- (v) seminars by Western industry advising CEMA exporters on the technical adaptation of goods in such a way as to meet the demands of the Western purchasing market;
- (vi) seminars by Western industry advising CEMA exporters on handling techniques, classification, packing and presentation, labelling of goods, refrigeration techniques, etc.
- (vii) improved business contacts and representation;
- (viii) publicity from Western governments on regulations of relevance to trade promotion.

(a) Advantages for the West

13. Such proposals will undoubtedly facilitate matters for the Western importer, especially in terms of administrative obstacles encountered hitherto in accelerating the flow of goods from Eastern Europe, and meeting deadlines. Sales potential could be increased through improved quality. However, in view of continuing politico-ideological controls over Eastern economies, as well as central planning constraints, it is unlikely that such proposals will result in any steep increase in the share by CEMA in the total imports into Western Europe. Nevertheless, they could contribute to a boost in short and medium-term Eastern imports, provided they are carefully blue-printed in advance. It is noteworthy that the need for an upturn in quality of output for export to the West has been recognised of late by CEMA in establishing special lines of production in goods intended for Western markets.

(b) Disadvantages for the West

14. No basic disadvantages are inherent in the above-mentioned pattern of co-operation. Care should be taken to avoid that any proposed Western initiative be construed by the other side as an admission that Western industry is at fault.

IV. RECOMMENDATION:

That the proposals in III above be adopted, especially Items (i), (ii), (iv), (vii) and (viii).

V. TALKING POINTS:

- (i) Training programmes and periodic exchange of technical personnel giving the Eastern partners the benefit of depth exposure to Western management techniques and production organization - the notorious weak spots in any Soviet bloc enterprise.
- (ii) In information submitted to the 18th Session of the ECE Committee on the Development of Trade, the CEMA Secretariat stated:  
  
"Co-ordination of economic plans and the CEMA... collaboration in the fields of industrial specialisation... and standardization promotes the growth of CEMA countries' export possibilities... both through raising the quality of industrial output and extending the range of export goods"; an appeal should be made for implementation of the proposals in paragraph 12 above in the light of this declaration.
- (iii) It is for the Eastern countries to make the greatest efforts to improve their export capability; in particular at these early stages in East/West co-operations.

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GUIDELINE I/4 (1)

I. IMPROVED ARBITRATION PROCEDURES IN EUROPEAN COMMUNIST COUNTRIES FOR SETTLEMENT OF COMMERCIAL DISPUTES WITH NATIONALS OF OTHER COUNTRIES.

II. PROBLEM

1. Each European Communist country has a foreign trade arbitration commission organized under its Chamber of Commerce. State trading organizations of these countries have generally insisted, when negotiating commercial contracts, that arbitration be conducted in the respective Communist country before a board of arbitrators sitting in that country and composed exclusively of its own nationals. While Western parties who have had experiences with such arbitral boards have not always been discouraged from continuing their business relationships, such situations nevertheless are widely considered among Westerners to be unsatisfactory from the standpoint of doing business with European Communist countries.

2. Communist state trading organizations have occasionally agreed to arbitration with Western parties in third countries, usually Sweden, Switzerland, Austria and the United Kingdom. However, such practices vary with respect to the type of arbitration procedures that such organizations will accept.

3. Within the Western world, the rules of arbitration of the International Chamber of Commerce have gained wide acceptance. Except in special cases, however, Communist state trading organizations have been unwilling to agree to arbitration under the Chamber's auspices on grounds that it is headquartered in a capitalist country (Paris, France) and is intimately connected with commercial organizations in capitalist states. State trading organizations have also refused to agree to arbitration procedures of other Western arbitral organizations, such as the American Arbitration Association.

4. The European Communist countries are members of the ECE Convention on International Commercial Arbitration, of 1961, to facilitate settlement of East-West commercial disputes. The Convention substitutes for national rules criteria and procedures established by the Convention itself or by party stipulation. The Convention is considered by most Western countries to be of limited practical importance, since their businessmen already have recourse to the procedural rules of private arbitration organizations such as the International Chamber of Commerce, the American Arbitration Association, etc., which have been used traditionally with satisfactory results.

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(1) Revised ED/EC/72/35 (Note No. 14) in the light of comments from the United Kingdom

III. PROPOSAL

The West should ask the USSR and Eastern European countries to consider more widespread acceptance of private arbitration tribunals functioning on a multilateral basis. This would include procedures of the International Chamber of Commerce in Paris, or those available on a third-country basis, such as the Chambers of Commerce of Zurich and Stockholm, which are considered by many Western businessmen and legal practitioners to be particularly appropriate for settlement of East-West commercial disputes.

A. Advantages for the West

- (a) Availability to Western parties in East-West trade disputes of arbitration panels not subject to Soviet/Eastern European domination would probably encourage wider interest in negotiating trade and licensing relationships with state trading organizations.
- (b) Western firms and individuals will be more confident of receiving fair treatment regarding payments due to them in commercial contracts.

B. Disadvantages for the West

Insistence on arbitration procedures along the above lines might tend to discourage state trading organizations from concluding arrangements with specific Western parties. Nevertheless, the state trading organizations will tend to shop around among different Western parties playing one off against the other in order to find a firm prepared to conclude a deal on their own terms. In order to force through the acceptance of an arbitration procedure, Western unity on this score is therefore essential. However, experience has shown that where a Soviet or East European finds a net advantage to be gained, it generally agrees to arbitration procedures under auspices other than those of its own government.

IV. RECOMMENDATION

That CSCE participants agree to encourage state and private enterprises engaged in international trade and co-operative undertakings to accept arbitration of disputes before the International Chamber of Commerce or before a tribunal in a neutral country.

V. TALKING POINTS

- (1) Western countries are always interested in improving arbitration procedures for facilitation of East-West trade and welcome any specific proposals for further in-depth consideration.

- (2) As a condition for doing business with state trading organizations, Western firms should not be required to accept arbitration procedures conducted in the Soviet Union or Eastern Europe.
- (3) Private arbitration tribunals, such as those under the International Chamber of Commerce and in third countries, seem particularly adaptable to objectivity in East-West trade disputes.

GUIDELINE I/5 (1)

I. RESPONSE TO COMPLAINTS BY COMMUNIST COUNTRIES ABOUT WESTERN TARIFFS

II. PROBLEM

The Communist countries are likely to complain that tariffs and quantitative restrictions (QRs) are obstacles to an expansion of their sales in the West(2). The present paper discusses possible Western reactions to such complaints, but only as regards tariffs(3).

A. General principles

2. The Communist countries might seek to justify their complaints against Western tariffs in various ways. First, they might in general terms complain about the tariffs payable in Western countries on imports originating in their countries. On this score their case is very weak. The lowering of tariffs in the framework of GATT which has characterised the post-war period, has been based on the principle of reciprocity set out in the Preamble to the General Agreement. Countries commit themselves to limit tariff protection of their own production in exchange for better access to markets in other countries which have undertaken similar commitments, and on the understanding that all countries undertaking these commitments are treated in the same way.

3. This system has been devised by and for market economies(4). Here, nationals are basically free to buy in any market, and trade decisions are made by a large number

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- (1) Revised ED/EC/72/39, (Note No.16) in the light of comments from the United Kingdom and United States.
- (2) These countries' interest in the lowering or abolition of other countries' tariffs closely resembles that of market economies, only more direct: in the West, governments have a general interest in the competitiveness of their producers and traders; in the Communist countries, any mark-down of prices necessitated by tariffs diminishes the State's revenue on foreign trade.
- (3) QRs are to be discussed separately. Papers are also being prepared on GATT and on the cost and pricing in Communist countries.
- (4) The few articles on state trading in the General Agreement clearly concern state enterprises or monopolies operating in what is otherwise a market economy. They do not deal with countries where foreign trade as a whole is a state monopoly.

of independent firms and traders. Tariffs discourage them from buying abroad, by making these foreign purchases more expensive. Tariff reductions reduce this discrimination against foreign products and make it easier for nationals to exercise freedom of choice.

4. In the centrally controlled economies of the East, tariffs are irrelevant. There is no need to discourage enterprises or individuals from buying foreign goods since all decisions of this kind are made or approved by the centre. Foreign suppliers, therefore, compete for the favour of the state monopoly not for that of user enterprises or consumers. Moreover, these decisions are often not based on normal commercial principles since the bulk of each country's foreign trade is committed to the other socialist countries, Romania alone having modified the traditional pattern. There is thus built-in discrimination against Western countries which can compete for less than one third of the trade of Communist countries.

5. This being so, a centrally planned economy cannot offer the reciprocal trading opportunities which are available in the GATT framework. These countries cannot reasonably claim to be entitled to GATT treatment as regards tariffs. There are two special cases to be considered:

- (a) where reciprocity designed to have a real impact in a centrally planned economy is offered. Western countries have accepted the commitments of this kind made by Poland and Romania(1);
- (b) where central planning is replaced by a socialist market economy and trade decisions are taken by individual enterprises influenced by government economic policy rather than subject to administrative orders. In the negotiations on the Yugoslav accession to GATT, Western countries considered that a meaningful application of the Agreement presupposed that manufacturers and traders of any contracting party should be able to compete with local producers as well as with outside suppliers over the whole range of goods they might wish to try to sell, and the Yugoslav Government accepted in principle that customs tariffs should be the sole means of protecting domestic industries.

6. Although in principle the Western countries have always, in particular in discussions in the United Nations Economic Commission for Europe, maintained that the Communist countries

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(1) Poland was admitted to GATT after having undertaken to increase by 7% per annum their imports from GATT countries. Romania undertook to increase such imports by not less than their overall imports.

have no right to claim GATT treatment, in practice a more pragmatic approach has been adopted. Special tariffs on the imports from Communist countries might be ineffective as these countries are able to disregard the profitability of the export of any particular commodity. In any case, the European NATO countries have, instead of applying special tariffs, preferred to control imports from Communist countries by means of QRs - a system much more akin to their own administrative control of foreign trade. Communist countries in fact benefit from GATT tariff treatment, including the lowering of tariffs resulting from the Kennedy Round. Canada does not use QRs and freely accords most favoured nation tariff treatment to the Communist countries. The United States is the only NATO country which denies most favoured nation tariff treatment to Communist countries other than Yugoslavia and Poland.

B. Tariff concessions to less developed countries

7. Another argument which the Communist countries theoretically might take up would be to claim that they should benefit from the generalised preferences which the industrialised countries have accorded or promised in favour of less developed countries(1).

8. Romania has officially requested such treatment from the EEC and Bulgaria has made the same request to the individual EEC countries. Between the COMECON countries this is likely to be a divisive issue. On economic grounds Poland might perhaps qualify for such treatment, but the case of Hungary would appear more doubtful, and neither Czechoslovakia nor the GDR could be called less developed. Presumably, the USSR neither could nor would request such treatment. The issue is therefore unlikely to be raised by the Eastern bloc, but might be brought up by Romania or certain other COMECON countries. Five COMECON countries - Bulgaria, Poland, Hungary, Czechoslovakia and the USSR - have announced their willingness to grant trade concessions to less developed countries which they maintain would be comparable to the benefits of generalized preferences. This position is part of the report of the Special Committee on Preferences (TD.B.329/Rev. 1) which was approved by the UNCTAD board on 13th October, 1970.

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(1) These preferences have until now only been applied by the EEC, Japan, Norway, the United Kingdom, Denmark, Sweden, New Zealand, Finland, Ireland and Switzerland.

C. Special tariff arrangements for East/West trade

9. Some years ago the USSR attempted, on the basis of most favoured nation clauses in bilateral agreements, to claim that it was entitled to benefit from the lowering or abolition of tariffs within the EEC and EFTA. It is generally acknowledged that the most favoured nation principle does not prevent the establishment of custom unions and free trade areas. Although this has never officially been conceded by the Soviet Union, the line of argument mentioned here appears unlikely to be taken up again.

10. It appears more probable that the Communist countries will resort to the argument that the changes in Western trade arrangements presently taking place will increase their difficulties of marketing their products in the West. Apart from the generalised preferences for less developed countries, competition will increase as a consequence of the special agreements envisaged between the enlarged Common Market and EFTA countries which are not seeking admission. The EEC has also made association or special trade arrangements with a large number of countries. The state trading countries might claim that as a result of these developments, they are likely to become practically the only group of countries subject to full normal tariffs of the enlarged Common Market. They might therefore ask for special arrangements, including tariff concessions. As the argument against too many special arrangements by the Common Market is one which also corresponds to positions taken by the United States and Canada, this could provide an opportunity for the East to attempt to play some NATO countries off against the others.

III. PROPOSALS

- (i) NATO countries should not take the initiative in raising the subject of tariffs. If it is raised by the Eastern countries, it should be pointed out that Communist countries are already receiving - without any comparable counterpart - most favoured nation treatment in most NATO countries, whereas the Eastern countries' foreign trade system gives them ample means to discriminate against other countries.
- (ii) Should individual COMECON countries repeat their claim to be considered as less developed countries in relation to the generalised preferences, NATO countries might point out

that this is a matter for discussion in UNCTAD, and that the treatment to be accorded to other countries at a similar stage of industrial development would have to be taken into account(1).

- (iii) Should the Eastern countries criticise the commercial policies of the EEC, it might be made clear that the COMECON countries are in no position to avail themselves of arguments based on GATT philosophy in view of the fact that they give overwhelming priority to trade with each other, using means more effective than preferences to achieve this.

A. Advantages for the West

From a Western point of view there is no purpose in discussing this subject at a CSCE, as tariffs are not very relevant in the trading practices of centrally controlled economies. A special reason for not discussing this issue is that the Communist countries might utilise, for their own purposes, arguments sometimes used by the United States and Canada in discussing EEC commercial policies.

B. Disadvantages for the West

The issue might have been used by Western countries to point to the advantages which would follow for East/West trade, if the Eastern countries developed socialist market economies where tariffs could be meaningfully applied.

- IV. RECOMMENDATION that the proposal in III above be adopted.

V. TALKING POINTS

- (1) Most NATO countries apply GATT bound tariffs to imports from all Communist countries - these countries therefore benefit, without any comparable counterpart, from tariff concessions agreed on in an arrangement whereby all other countries have paid an entrance fee by opening up their own markets.

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(1) Yugoslavia is included among the less developed countries benefiting from the generalised preferences and the EEC has, pending a decision on whether or not to include Turkey, provisionally accorded certain concessions to that country.

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- (2) As GATT is based on reciprocity it is perfectly logical if the United States chooses to insist on certain reciprocal advantages as a condition for extending most favoured nation treatment to the Communist countries which do not enjoy this already.

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GUIDELINE I/6 (1)

I. ALLIED RESPONSE TO A REQUEST FOR MODIFICATION OF COCOM LISTS

II. PROBLEM

1. It is possible that the Soviet Union and the East European countries will maintain that the existence of a large COCOM list directed primarily at the Warsaw Pact countries is an obstacle to expanded trade between Western Europe/North America and Eastern Europe, and will wish to discuss the possibility of its removal.

A. Discussion of the COCOM list

2. COCOM (Co-ordinating Committee) is an informal group of 15 countries: Belgium, Canada, Denmark, Federal Republic of Germany, France, Greece, Italy, Japan, Luxembourg, Norway, Portugal, the Netherlands, Turkey, United Kingdom and United States. It began operating in Paris in January 1950 and since that time the lists of items internationally agreed upon for controls have been frequently revised.

3. There has been a downward trend in the number of items under control and the scope of the embargo. As new information is developed about productive capability and advances in Communist countries, some items are removed from the list. Conversely, because of new technological developments in the West, new items are periodically added.

4. The latest review of the COCOM list has been under way since October 1971. At the beginning of this review there were approximately 163 items under control, consisting of the 106 international list items and 26 international atomic energy items, 22 international munitions list items and 9 watch list items. This may be compared with the high point in 1953 of approximately 450 controlled items.

B. List criteria

5. Criteria for placing items under COCOM embargo are as follows:

- (a) materials and equipment (by types and grades) which are designed specifically or in peacetime used principally for the development, production or utilisation of arms, ammunition or implements of war;

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(1) Revised ED/EC/72/40 (Note No. 17) in the light of comments received from the United States and the United Kingdom).

- (b) materials and equipment (by types and grades) incorporating unique technological knowhow, the acquisition of which by the Sino-Soviet bloc may reasonably be expected to give significant direct assistance to the development and production in peacetime of modern arms, ammunition or implements of war, of their means of utilisation or of delivery, or of counter-measures to them;
- (c) materials of which the Sino-Soviet bloc has a deficiency which may reasonably be expected to be critical in relation to the production in peacetime of modern arms, ammunition or implements of war, of their means of utilisation or delivery, or of counter-measures to them, and which it could not overcome within a reasonable period.

C. Composition of International List

6. The COCOM International List is highly selective and includes inter alia:

- (a) certain metals, minerals and their alloys such as zirconium, cobalt and nickel;
- (b) metal-working machinery such as jig borers and grinders with close tolerances, specialised hydraulic presses, and numerical-controlled machine tools;
- (c) specialised processing equipment for chemical and petroleum industries such as certain gas liquefying equipment, equipment for the production of military explosives and solid propellants, ion vacuum pumps and cryopump systems;
- (d) electrical and power-generating equipment such as electrical vacuum furnaces, electronic beam equipment and semi-conductor devices for direct conversion of solar or nuclear energy to electric energy;
- (e) transportation equipment such as hydrofoil vessels, certain aircraft, helicopters and engines and associated equipment;
- (f) electronic and precision instruments such as advanced communication, navigation, direction finding and radio-equipment, radio relay communications equipment, single and multi-channel communications equipment, semi-conductors and computers;
- (g) chemical and petroleum products such as lead azide, boron, fluoro-carbon compounds, synthetic lubricating oils and meases;

- (h) specialised synthetic rubber;
- (i) synthetic film for dielectric use with very fine thickness.

D. Exceptions procedures

7. Items on the International List may still be exported to Communist countries provided that COCOM exceptions procedures are followed. These are that the exporting country must be satisfied that the export is to a civilian user, is suitable for the stated civilian end use, does not contain critical knowhow which should not be transferred to Communist countries, and does not relieve a critical deficiency in these countries. The exporting country must obtain the unanimous approval of other member countries in most cases, although there are special administrative notes on some items that allow for governmental exceptions without prior clearance in COCOM. Moreover, there are special exceptions procedures for servicing and de minimis shipments.

III. PROPOSALS

It should be agreed that no examination of this issue can be undertaken at a CSCE. If the Soviets or East European raise the subject the Allies should maintain that they have the right to restrict exports which in their opinion could be detrimental to their security and mutual defence, and that in any event the controls are limited in trade impact.

The results of the present revision of COCOM lists are expected to be made known by October 1972. If at this time it appears that a CSCE is likely to take place in the short term future, it might be desirable to withhold this information so that it could be used for a bargaining counter at the Conference, and as an earnest of Western good intentions.

A. Advantages for the West

- (a) The agreed-upon lists of strategic goods and materials and advanced sophisticated equipment predominantly used in the development, production and design of military items are needed to prevent the export to Communist countries of items which could make significant contributions to the Communist countries' ability to manufacture or deliver weapons or implements of war. By denying the Communist countries uncontrolled access to such items, the West helps to preserve its military security at an acceptable level of defence expenditures.

- (b) Lacking such an agreed list, there would be danger of cutthroat competition, without adequate attention to mutual security considerations, between Western firms for Soviet and Eastern European markets.
- (c) At the same time, procedures are sufficiently flexible to permit exports of international list items providing that the export is suitable for the stated civil end-use and the consignee is known to be a civilian end-user.
- (d) A firm Western position would remind the Warsaw Pact countries once more of the dependence of an increase in trade in COCOM list items on improvement in political/military relations.

B. Disadvantages for the West

- (a) The maintenance of these COCOM controls imposes a considerable administrative burden on member countries.
- (b) These controls reduce the potential export earnings of member countries.
- (c) Unwillingness to discuss modification in the COCOM system could forgo a possible bargaining area.

IV. TALKING POINTS

- (1) The Warsaw Pact members practise a far stricter policy on strategic embargo than COCOM, particularly in terms of precluding goods with military value reaching the West. Some sign of a more mature approach to trading with the West could well have some positive impact on COCOM's assessment of strategically valuable goods.
- (2) The issue of greater flexibility in interpreting the lists is, in any case, not one of prime importance as, firstly, no discussion could be expected realistically by the Eastern countries of any modification to the Military List, and, secondly, requests made by COCOM member nations for permission to export items on the International List are being granted with increasing frequency by the Co-ordinating Committee.
- (3) As the trend in the revision of the lists is downward, and the assumption is that United States, Alliance and Japanese interest in developing overall trade links further with CEMA will grow, COCOM experts will presumably adopt an increasingly less rigid view of technology and commodity sales to CEMA countries.

GUIDELINE I/7(1)

I. RESPONSE TO COMPLAINTS BY COMMUNIST COUNTRIES ON WESTERN QUANTITATIVE RESTRICTIONS (QRs)

II. PROBLEM:

In the United Nations Economic Commission for Europe and bilaterally, the Communist countries have been pressing Western countries to undertake obligations not to impose any new QRs on imports from the East and to set a definite time limit for the complete removal of existing "discriminatory" QRs.

A. The inability of the Eastern countries to provide reciprocal advantages

2. Special QRs on imports from Communist countries are not employed by Canada or the United States where trade flows with CEMA countries are relatively small, but they have played an important rôle as a tool of commercial policy in the European NATO countries. The range of products subject to QRs is larger as regards imports from state-trading countries than from other countries. This paper only deals with these so-called discriminatory QRs.

3. The Communist countries attack the use of QRs as a political discrimination against them inherited from the cold war, and as a departure from the liberal trade principles professed by Western countries. This is an attempt to avail themselves of advantages for which they can offer no equivalent counterpart. Western efforts to reduce and eventually abolish QRs affecting trade between market economies are based on reciprocity. The restraints on the use of QRs accepted by GATT countries presupposes that physical limitations of the volume of imports is the exception not the rule. In contrast, the foreign trade plans of the centrally controlled economies amount to 100 per cent regulation of foreign trade by means as rigid as quantitative restrictions and substantially wider in effect than those operated by Western countries.

4. The Communist countries reject this interpretation and argue that once the volume of imports has been fixed by the plan, (that is, quantities have been restricted by direction) their foreign trade organizations are obliged by law to choose their sources of supplies in accordance with commercial considerations. As these governments clearly have the authority to transmit

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(1) Revised ED/EC/72/41 (Note No. 18) in the light of comments from the United Kingdom.

orders directly and secretly to the executive agencies, it is not possible for outside observers to ascertain what factors in each case determine the decision on where a purchase is to be made.

5. The government control over trade in the Warsaw Pact countries is moreover used to discriminate heavily against the West. With the exception of Romania, all the Communist countries direct some two thirds of their trade to each other by way of bilateral agreements, thus excluding Western exporters from large areas of potential trade(1). In view of this situation, the Communist countries' contention that they have some kind of natural right to claim that Western countries should not apply special QRs to control imports from them is untenable.

6. A further reason for not accepting such a contention at a CSCE is that GATT countries, in connection with the accession of Poland and Romania to that organization, have undertaken not to increase, and gradually to reduce, protection by special QRs(2). For their part, these countries have undertaken to increase their planned imports from GATT countries. If the policy of admitting to GATT Communist countries willing to undertake certain commitments is to be continued(3), it will be necessary to reserve some advantages for the countries seeking admission.

B. Practical advantages to the West of QRs

7. QRs normally aim at protecting domestic producers or traditional foreign suppliers. The reason for applying QRs to imports from the state-trading, but not from other, countries is therefore mostly that home producers fear competition by unfair pricing from these countries in particular. The Eastern commodities most frequently subject to specific quotas seem to be agricultural foodstuffs, textiles, clothing, footwear, ferrous

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- (1) This discrimination is often not overt, but it does occasionally find its way into published legal texts. This is for instance the case of a Bulgarian decree of July 1971. This decree states that purchase of a licence from the West will only be authorised in cases where it has been established that it cannot be obtained in other COMECON countries.
- (2) In the case of Romania the objective is to eliminate these QRs by the end of 1974.
- (3) Whereas the consequences of accession of the USSR are far-reaching and uncertain, there would be no manifest technical grounds for not accepting the admission of Hungary, Bulgaria, Albania and eventually the GDR. (See Guideline I/8)

metals and chemicals. The social and economic justification for this protection can only be examined case by case by the countries concerned. There are, however, two general reasons for using QRs in trade with Communist countries.

8. First, the state-trading countries dispose of a considerable bargaining power in negotiations with a Western country, because the Eastern representatives are able to decide from which country their imports are to come. On their side, Western governmental officials are not normally able to place orders, but the existence of QRs has offered them a bargaining asset which enabled them to offer assurances that import licences would be granted within certain limits. In return they have, in some cases, obtained from state-trading countries promises to buy, and, in other cases, less specific promises that these countries would use their "best endeavours" to take an agreed amount of goods from the Western country.

9. Secondly, the possibility of introducing new QRs or reducing quotas has provided a deterrent to dumping from Communist countries, where it is difficult to ascertain what the real cost of production is. Most Western countries seem to consider that this deterrent has worked fairly satisfactorily. However, problems might arise if Western countries abandoned all possibility of controlling their imports from Communist countries by way of QRs.

C. The decreasing Western use of QRs

10. All the industrialised West European countries have in recent years reduced considerably the range of goods subject to QRs. Some NATO countries, such as France and Italy, have furthermore, in bilateral agreements with the USSR, undertaken to aim at the complete abolition of QRs by 1974. Similarly the United Kingdom has formally stated its intentions to eliminate by the end of 1974 discriminatory QRs on imports from Hungary(1). In many cases Western countries have, however, carried through these liberalisation measures without undertaking any international obligation not to reintroduce QRs.

11. The reduction of Western QRs has been furthered by:

- the Eastern interest in buying in the West capital goods which they could not easily obtain elsewhere;

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(1) Austria on 1st January, 1971 lifted all QRs on imports from the USSR.

- the recognition of Western governments that the East would have to increase its exports to pay for these purchases;
- the fact that exports from Eastern countries do not constitute, in quality or quantity a great challenge to most Western producers;
- the greater weight by and large given to the interests of Western exporters rather than to those of the domestic producers;
- the probability that Eastern countries would use all the hard currency earned to buy in the West or reimburse their debts.

12. An internationally binding renunciation by Western countries of the right to introduce QRs might be dangerous should this situation change. It would leave the Western countries without any legal means to correct the distortion should Communist countries build up their exports to all Western countries while concentrating their purchases elsewhere or - a more likely hypothesis - in those Western countries which they wanted to regard politically. This might considerably increase possibilities for the East to apply political leverage.

D. Present impact of Western QRs

13. It is the view of Western countries that QRs are no longer an important obstacle to East/West trade. With the aim of providing up-to-date information on the situation and - to the extent possible - a quantitative assessment of the impact of the remaining QRs on trade, the Economic Committee has decided to undertake, in the autumn of 1972, an examination of this question.

14. Western countries often point out that the Eastern countries do not in all cases use the quotas open to them. The Eastern countries retort that their enterprises only acquire an interest in Western markets if it is reasonably sure that these outlets will remain open and provide possibilities of expansion. The Economic Committee will also assemble information on non-fulfilled quotas and assess the validity of the arguments about their significance.

III. PROPOSALS

15. NATO countries should not seek discussion of Western QRs but in response to Eastern complaints point out:

- (i) that the planning and foreign trade system in Eastern European countries de facto imposes universal and arcane QRs on trade with Western countries;

- (ii) that the West European countries have reduced these controls considerably in recent years while there has been no corresponding reduction in the restrictions operated in CEMA countries, in fact, such restrictions - exemplified by the increased percentage of intra-CEMA trade - have increased.
- (iii) that Poland and Romania by undertaking certain commitments in the framework of GATT have obtained assurances that new QRs will not be introduced and that the existing ones will gradually be abolished(1);
- (iv) that Warsaw Pact countries not wishing to negotiate accession to GATT might bilaterally obtain some, if not all, of the advantages obtained by Poland and Romania, by undertaking appropriate engagements to increase their imports and to safeguard against any market disruption which might be caused by their exports.

16. It should further be agreed that any NATO country wishing to offer at a CSCE new advantages to the East as regards QRs should, well in advance, consult with the other members of the Alliance.

17. Further consultations should take place in order to seek ways and means to check attempts by the East to exploit the diverging views on the use of QRs towards state-trading countries of, on the one hand, Canada and the United States and, on the other, the European countries(2).

A. Advantages for the West

18. The proposals made in paragraph 15 attempt to combine a pragmatic attitude to practical measures involving some elements of reciprocity, with a refusal to accept, as a principle or a binding obligation, the forsaking of the use of QRs in relations with state-trading countries. Giving up entirely this form of protection might jeopardise wider Western interests and offer the Communist countries considerably increased possibilities of using their trade to further their political aims.

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- (1) This argument seems logically necessary, in particular if it is considered to be in the interest of the West that Communist countries other than the USSR should seek admission to GATT. It should, however, be kept in mind that the Poles do not consider that so far they have obtained much by their accession to GATT.
  - (2) Canada and the United States have sharply criticised the use of QRs, not only between market economies, but also specifically their use by West European countries towards Communist countries. See, for instance, as regards negotiations in GATT on QRs on Polish exports, the General Report on the Activities of the Communities 1971, page 403(in the French Text).

19. The proposal in paragraph 16 aims at avoiding that unexpected moves by one NATO country afford Communist countries exaggerated possibilities of manoeuvre to provoke overbidding by other NATO countries.

20. The proposal in paragraph 17 is self-explanatory.

B. Disadvantages for the West

21. The proposals do not seem to present any disadvantages for the West as a whole.

IV. RECOMMENDATION: that the proposal in III above be adopted.

GUIDELINE I/8(1)

I. ACCESSION TO GATT OF ADDITIONAL COMMUNIST COUNTRIES

II. PROBLEM

While it seems unlikely that the East European countries would wish to discuss as a separate issue the accession of additional Eastern countries to the GATT, it would nonetheless be appropriate to consider the matter both in the event that it is raised in the context of other issues and also to consider whether Western countries might profitably raise it.

A. Review of present GATT status of East European Countries

1. In addition to Yugoslavia, the following Communist countries of Eastern Europe are GATT contracting parties:

- (a) Czechoslovakia, which was an original signatory in 1947. Since the Communist coup d'état in 1948, Czechoslovakia has remained a contracting party but has taken a relatively inactive rôle in GATT proceedings.
- (b) Poland, which became a full contracting party in June 1967, after having become an observer in 1957 and having acquired associate status in 1960. It was the Polish accession that provided East European states with a distinct alternative to the practice of market countries of offering tariff concessions as an "entry fee" in reciprocity for the benefits of becoming a contracting party. A number of contracting parties had doubted that the GATT could or should accommodate Poland. They were concerned that the Polish system did not offer Western exporters sufficient access; that the Polish import programme as a part of the national economic plan basically left to imports from market countries only a residual market that

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(1) Replaces ED/EC/72/36(Note No. 15)

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could not be met by domestic production or imports from CEMA countries; that participation in CEMA resulted in a discriminatory choice of imports incompatible with MFN, and that state planning resulted in arbitrary determination of trade patterns by administrative fiat rather than the market forces that the GATT is designed to encourage. However, the view that eventually came to predominate was that accommodation might be possible if Poland would undertake commitments that would influence her planning process and if contracting parties could obtain special safeguards in view of the different approach by state trading countries to setting export prices. Accordingly, the Polish accession protocol includes the following provisions:

- (1) An undertaking (so far adhered to) by Poland to increase imports from contracting parties at a rate of at least 7 percent per annum.
  - (2) Annual consultations on Polish import targets.
  - (3) Bilateral consultations should Poland or any contracting party request them, with provision for either Poland or the contracting party to suspend GATT obligations toward the other if further consultations with the contracting parties as a group do not lead to a settlement.
  - (4) Action by a contracting party to restrict imports from Poland should they cause or threaten serious injury to domestic producers and should consultations fail to resolve the issue.
  - (5) In return, an undertaking by contracting parties maintaining discriminatory quantitative restrictions inconsistent with the GATT to remove the inconsistency by the end of a transitional period of unspecified length.
- (c) Romania, which became a contracting party in November 1971. The Romanian accession protocol is modelled after the Polish instrument, but differs in that Romania's import commitment is an expression of intent to increase imports from the contracting parties as a whole at a rate equivalent to the overall increase in imports foreseen in the current Five Year Plan.

The consultations with Romania are to be biennial rather than annual.

2. Hungary is attempting to negotiate accession to the GATT on a different basis. The Hungarians, while maintaining state trading relations with CEMA countries, have established tariffs against imports from market countries, which some individual enterprises have been given greater freedom to deal with on the basis of market considerations. They have refused to consider undertaking an import commitment to GATT contracting parties offering instead to enter into tariff negotiations. The basis for this approach is the substantial decentralization and adoption of market features that have characterized the country's recent economic reforms.

3. The Soviet Union, Bulgaria and Albania have not applied to accede. Their economies as presently structured more closely resemble the centralized, state-directed economies of Poland and Romania than the partially decentralized Hungarian economy. Insofar as these countries are willing to undertake commitments along the lines of Poland, there are no manifest technical grounds for excluding any of them. The same generalization is likely to hold true for the German Democratic Republic by the time the CSCE takes place.

B. Consequences of Communist Countries' Participation in GATT

1. The consequences of participation by Czechoslovakia and Poland in the GATT do not appear to have been very significant either for the two countries or for the GATT. Poland has participated somewhat more actively than Czechoslovakia in GATT proceedings, but has pursued a pragmatic rather than ideologically dogmatic approach. Although information is somewhat limited, Poland appears to be seeking through its GATT participation generally to promote access to Western markets and ensure stable trade relations with the West.

2. Poland's participation in the GATT does not appear to have contributed significantly to pressures for domestic economic liberalization. The recent reforms appear to have concentrated on reordering planning priorities mainly in response to domestic social pressures,

and have not led to substantial changes in the highly centralized structure of the economy. In part the lack of domestic impact stemming from Poland's participation in the GATT reflects the terms of accession. Few substantive changes in Poland's system of foreign trade were required. GATT provisions will continue to have limited applicability as long as Poland retains most features of a state trading country and Western countries do not utilize consultation procedures to press for changes.

3. If Bulgaria, Albania or, eventually, the GDR were to accede to the GATT on terms similar to those in the Polish and Romanian cases, it is reasonable to assume that the significance likewise would be modest both for these countries and for the GATT. It seems unlikely that they would be inclined to unite with Poland, Czechoslovakia, Romania and Hungary to pose a vigorous, concerted challenge to the industrialized market countries' domination of the institution.

4. Were the Soviet Union to accede, however, the consequences would likely be more far-reaching and more uncertain, for the following reasons:

- (a) The economic magnitude of the Soviet Union would make negotiation of terms of Soviet accession a major trade negotiation.
- (b) The Soviet Union as a contracting party might well consider itself obliged to play an active rôle in keeping with its status as a major power.
- (c) The Soviet Union would probably seek to assert leadership over other East European contracting parties, some of which would be likely to respond by playing more dogmatic and assertive rôles than at present.
- (d) The Soviets and others might be inclined to pursue major **reform** of the GATT so that its structure and functions would be as consistent with state planning as with market economies.
- (e) The Soviets could be expected to press hard for total removal of discriminatory restrictions, and to seek to enlist the support of market countries that do not themselves maintain such restrictions against East European countries.

III. PROPOSAL

The West should not take the initiative in raising the subject. If the Eastern countries raise it, the Western countries should respond with assurances that additional applications to accede would be considered on their merits in the GATT, which is the appropriate forum in which to consider the subject.

A. Advantages for the West

1. Avoidance of discussion of the subject at the CSCE will eliminate any risk of erosion of Western countries' ability to exact concessions from future Eastern applicants in the course of accession negotiations.

2. Avoidance of discussion of the subject, should the Soviets probe prospective Western attitudes to any application to accede, would reduce any risk implicit in a more positive Western response of encouraging the Soviets to apply without a sufficient commitment to undertake obligations that would be required of them.

B. Disadvantages for the West

By refusing to discuss the subject at the CSCE, the West would give up the possibility of eliciting Eastern responsiveness on trade matters in return.

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GUIDELINE I/9 (1)

I. DIVERSIFICATION OF EASTERN IMPORTS FROM THE WEST

II. PROBLEM

1. In trading with the West, the Eastern countries are primarily interested in the procurement of plant, semi-finished goods and transport equipment in which they are lacking. They also buy certain foodstuffs which they do not produce themselves or of which they do not produce enough. Their purchases of consumer durables are only incidental.

2. This situation is clearly mirrored in the statistics of Western exports to the Eastern countries. In the particular case of NATO European countries, foodstuffs, beverages and manufactured consumer items accounted for about 13.5% of all exports in 1960 and in 1969; in other words, after several years of considerable East/West trade expansion, they still accounted for only 14.6%(2).

3. Manufactured items(3) accounted for a very small proportion of overall consumer sales. At best(4), items of this kind sold by the European NATO countries to the USSR and the Eastern countries in 1960 totalled just over US \$58 million or 3.5% of total sales (US \$1,641 million). By 1969, this figure had risen to about US \$289 million or just over 7% of total exports (US \$4,168 million).

4. In terms of value, however, the expansion has been considerable, with sales increasing five-fold in nine years while total exports have increased 2½ times. The increase in deliveries of foodstuffs (2.3 times) has also been a large one.

5. By comparison with total exports of manufactured consumer goods, however, Western sales to the East remain minimal as the following OECD statistics show.

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- (1) Revised ED/EC/72/34 (Note No. 13) in the light of comments from the UK and the US. The United States consider that the disadvantages of raising this issue far outweigh any benefits gained therefrom, and prefer that this paper be dropped.
- (2) See AC/127-D/335 and AC/127-D/303.
- (3) Television and radio sets, refrigerators and other domestic appliances, clothing, shoes, motor cars, photographic and cinematographic equipment, clocks and watches, travel goods, books, etc.
- (4) Miscellaneous manufactured items, unclassified items, motor cars and domestic appliances.

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EXPORTS BY EUROPEAN MEMBERS OF THE OECD  
TO THE EASTERN COUNTRIES IN 1969

US \$ 1 million

	Total Exports	Exports to the East(1)
Television sets	249	0.5
Radio sets	228	0.7
Domestic appliances	972	5
Motor cars	5,944	42
Miscellaneous manufactured items	12,133	263

6. These figures confirm that the COMECON countries make a point of buying from the West only the raw materials and plant which are essential to their economies. This policy can be readily understood if it is remembered that:

- (a) These countries are still living in conditions of semi-austerity as regards most consumer goods. Eastern policy-makers may fear that the opening up of the market to Western goods, which are keenly sought after by the local population, could create social problems to the extent that imports fell short of demand. Rationing - presumably by price - would put them beyond the reach of most potential buyers. The quality and design of Western goods might also show up the poor standard of Eastern output.
- (b) These countries are afflicted by a chronic shortage of hard currency. Consequently, consumer goods would have to be bought at the expense of imports which, from the standpoint of economic expansion had been assigned a higher priority. In addition, consumer goods are bought on different terms from those applying to plant and equipment and any credits would be for a much shorter period.
- (c) Under pressure from the USSR, a substantial proportion of the foreign trade of the COMECON countries is restricted to transactions with their partners in that organization. The GDR, Czechoslovakia, Poland and Hungary produce a huge range of consumer durables;

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(1) The term "East" covers the East European countries and the USSR; the figures have been rounded off and do not include sales by the Federal Republic of Germany to the GDR.

Rumania and Bulgaria sell handicrafts and foodstuffs. All these goods find outlets within the COMECON. It should be noted in this connection that in 1970, the USSR imported manufactured items to the value of 1,933 million roubles for the Soviet consumer market(1) and that 70% of these goods were provided by other COMECON countries(2).

7. Any development in sales of consumer goods (whether durables or not) by the Western countries would seem to be subject to a number of factors:

- improvement in the output of the Eastern countries. When the latter are able to produce consumer goods of a better quality and in larger quantities, they may have fewer misgivings about opening up their markets to Western goods;
- improvement in the standard of living of the Eastern countries with the concomitant creation of new demand for both everyday and luxury items. In this connection, an improvement in housing conditions could have far-reaching consequences;
- opportunities for Western exporters to expand sales and "after-sales" networks in the Eastern countries which would receive regular supplies of spare parts;
- increase in the currency earnings of the Eastern countries which would give them a margin for the purchase of non-essential items;
- greater participation by the COMECON countries in international exchanges which would enable them to overcome their obsession with self-sufficiency.

### III. PROPOSAL

The Allied countries could suggest to the countries of the East that in order to develop trade between East and West, the two parties to a CSCE should agree to an expansion of trade in manufactured consumer goods greater than the overall expansion of their trade during a given period.

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- (1) i.e. 18.3% of overall imports which totalled 10,565 million roubles
  - (2) Percentage based on five categories of groups, viz: clothing, shoes, furniture, pharmaceutical goods and household goods

A. Advantages for the West

- (a) The Western consumer goods industry has a large output capacity and is in search of additional outlets.
- (b) Any increase in Western sales of consumer goods to the Eastern countries could act as an incentive to consumers in those countries to press for a rapid improvement in their standard of living. A development of this kind could foster the climate of détente.

B. Disadvantages for the West

- (a) It is not practical to press the Eastern countries, with their shortage of foreign currency, to purchase consumer items in the West without providing the means of payment. To increase their sales, therefore, the Western countries might have to step up their purchases perhaps not of manufactured goods but at least of agricultural produce, raw materials and semi-finished goods.
- (b) The Eastern countries will probably insist that in exchange for their increased purchases, the West should agree to raise their imports of the same type of goods. In this connection, they might also raise the question of quotas.
- (c) While the authorities of the Eastern countries can arbitrarily unload Western goods on their markets, the same is not true in the West. Even if Western governments were inclined to accept a stipulated amount of Eastern manufactured goods, they would, as market economy countries, lack the mechanisms to carry out any such undertaking.

IV. RECOMMENDATION

That the proposal in Section III above be adopted.

V. TALKING POINTS

In response to Eastern criticism regarding the difficulty of finding markets in the West for Eastern manufactures, these countries could be invited to make a more thorough study of the market and to bring their goods more closely into line with the tastes and requirements of Western consumers.

GUIDELINE II/1 (1)

I. DEVELOPMENT OF INDUSTRIAL CO-OPERATION

II. PROBLEM

1. During the last five years, industrial co-operation has aroused growing interest as a means of promoting the dynamic expansion of East-West trade.

(a) Definition

2. The term "industrial co-operation" connotes various types of contracts, concluded between individual East and West European enterprises, which extend beyond strictly commercial activities. Such agreements provide for a whole complex of mutually linked operations and comprise reciprocal commitments spread over a number of years(2).

3. Generally, these commitments cover various types of sub-contracting, co-production or specialist manufacturing such as:

- manufacture in each of the contracted enterprises of the complementary parts of a given product;
- assembly in an East European country of components supplied by a Western enterprise;
- manufacture by an East European enterprise of components which are then incorporated in the finished Western product;
- joint development of Eastern mineral resources and other raw materials

4. Such agreements may be paralleled by contracts covering:

- joint sales promotion on both the Western and Eastern European markets;
- sales co-operation, especially for deliveries to third markets;
- exchange of technical data on production and marketing;
- joint research in given areas.

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(1) Revised ED/EC/72/10 (Note No. 1) in the light of comments received from: Canada, Denmark, Norway, Netherlands, United Kingdom, United States, Germany.

(2) Usually the Communists limit the term "economic co-operation" to joint enterprises of this type operating on a very large scale.

Finally, these agreements normally provide for financing and payment arrangements which thereby avoid certain difficulties restricting East/West trade (for example, the reimbursement of Western credits by the delivery of goods manufactured in a plant built or developed with these credits in East European countries).

(b) Institutional framework

5. The institutional framework of this co-operation is provided by some bilateral agreements on industrial, scientific and technical collaboration which have been concluded during the past five years by most Western countries with almost all East European nations. Normally, these governmental agreements provide for the establishment of official joint commissions. However, absence of such agreements does not preclude industrial co-operation nor does their existence guarantee such co-operation. Their task consists in:

- the promotion of co-operation between individual enterprises;
- the organization of exhibitions and trade fairs, conferences, study and training courses;
- the exchange of technical staff, licences, patents, technical data, documentation, samples, etc.;
- the implementation of arrangements for joint research and development.

(c) Limitations

6. Despite the progress achieved, hitherto, in the field of "industrial co-operation"(1), its development has encountered a number of obstacles:

- (i) Countries with state-controlled trade do not always appreciate that, except in the nationalised sectors, Western governments can only provide an institutional framework, and initiate administrative measures encouraging this type of co-operation. Its implementation depends far more on the initiatives and scope for action open to private enterprises than on measures which may be taken by joint governmental commissions, the results of which have not always been up to expectations.

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(1) According to the Stanovnik report (English text: p.133), some 350-400 inter-enterprise contracts had been concluded by the end of 1969, dealing, in order of importance, with the following sectors: manufactured goods, transport equipment, mechanical engineering, chemicals and pharmaceuticals, electrical and electronic equipment.

- (ii) These agreements do not give Western enterprises the equity stake or ownership rights which characterise private investments in the Western world (1). Consequently, Western enterprises do not always enjoy the management and administrative authority needed for successful contract implementation. In addition, their contacts with their opposite numbers in Eastern Europe are sometimes hindered and complicated by official red tape.
- (iii) Current industrial co-operation usually has features reminiscent of the "barter" principle. Western companies may have problems accepting goods in payment which at times have little connection with their own type of production and which they cannot market.
- (iv) Finally, in terms of future developments, private enterprises are hindered by a lack of information on the requirements of the East European countries as defined in their plans; conversely, state planning officials are not always aware of what Western enterprises have to offer. East European representatives from foreign trade ministries or organizations participating in the joint commissions have hardly any direct contacts with the representatives of Western firms.

III. PROPOSALS

7. The East European countries might press for the inclusion of "industrial co-operation" on the Agenda of a CSCE. The Western nations could agree to this insofar as it involves joint attempts to find ways of overcoming the obstacles which such co-operation has encountered hitherto. The outcome of this discussion item depends on an objective review both by the Eastern and Western nations of the above mentioned problems. In particular this would involve discussion about the establishment of mixed companies and investments in the form of partnership for the creation of joint production plants in Eastern countries.

8. Any effort made by the West should be compensated by a number of measures which the East European countries would undertake to introduce. Discussion of these points would cast some light on the sincerity of the East European countries in seeking a practical solution. If this sincerity were to prove genuine, the conference could decide to press on with the consideration of this question in the forum which it deemed most suitable.

9. The East European countries could undertake:
- to promote the freedom of action and initiative of Western companies and allow much greater direct contact between East and West European enterprises;

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(1) In this regard, the Romanian "law on foreign trade and co-operation" dated 17 March 1971, which regulates the modalities for the establishment of mixed companies, may be an indication of a change of attitude.

- to guarantee adherence to the terms of their enterprises' commitments under licensing agreements;
- to improve procedures for settling both trade disputes and financial litigation, and property rights;
- to reduce their demands concerning the delivery, by way of payment, of goods which Western companies do not need;
- to define and apply standard principles governing the maximum participation rate of Western enterprises in East European firms; to provide adequate guarantees for the legitimate interests of Western investors(1);
- to agree to uniform rules governing debt service and repayments linked to industrial co-operation projects;
- to grant Western partners in mixed companies adequate co-management rights;
- to encourage East European planning officials and especially enterprise managers to participate more actively in the proceedings of the joint commissions;
- to provide fuller information on the economic development plans of the East European countries, thus enabling Western enterprises to gain a more accurate idea of those sectors which could prove of interest to them;
- to contact interested Western enterprises when drawing up plans for orders and sub-contracting when abroad, and on a basis of commercial considerations to give them equal competitive opportunities with all other countries including those in Eastern Europe.

10. In return, on a selective basis, the Western countries could agree to consider, under the auspices of the Economic Commission for Europe (Geneva), the possibility of:

- (a) creating an information centre which would become a data bank providing interested companies, both from Western and Eastern Europe, with information to facilitate contacts with companies seeking a partner to carry out joint projects(2);

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- (1) Partnership contracts should contain provisions, guaranteed by law, to the effect that the joint enterprises are entitled to make unlimited investments, or that their investments can only be limited subject to the payment of adequate and transferable indemnities (in case of actions equivalent to expropriation). This would include in the financial field primarily a guaranty for the retransfer of acpital after the contractually agreed termination of the co-operation, possibilities for profit transfers.
  - (2) The Danish Authorities have some doubts about the usefulness of this suggestion as they feel that the larger Western firms might be reluctant to supply information to such a centre for reasons of competition.

- (b) improving arbitration procedures for litigation relating to the implementation of industrial co-operation contracts, providing notably for arbitration before the International Chamber of Commerce or before a tribunal in a neutral country (1);
- (c) setting up a technical quality control centre which would guarantee standard and objective norms for goods traded (taking into account the interest of the many firms who are not taking part in industrial co-operation).

A. Advantages for the Eastern countries

- (i) Undeniably, the initial beneficiaries of "industrial co-operation" are the countries of Eastern Europe. In addition to the considerable input which this co-operation represents in general for the industrial and economic development of the East European countries, inter-enterprise contracts facilitate access to Western technology and to the management and marketing know-how of the industrialised countries of Western Europe; at the same time, they help to avoid certain disadvantages of traditional commercial practice.
- (ii) This form of co-operation helps to fill the gap in the export capabilities of East European countries which constitutes a major obstacle to the expansion of East-West trade in general. Moreover, these agreements which are normally long-term, facilitate planning for the East European countries by guaranteeing, under a joint agreement, the supply of goods they want when they are needed.
- (iii) For the Soviet Union, such arrangements on a wide scale could be of special interest as supplementary means of developing oil reserves and other natural resources (e.g. copper, nickel, wood, etc., in Siberia), for expanding its exports to the West.

The extent of these advantages in economic terms should induce the East European countries to make the concessions which would be expected of them.

B. Advantages for the Western countries.

- (i) The "industrial co-operation" agreements enable large-scale profitable transactions to be carried through and they create new outlets for Western firms; in addition, they have frequently led to stable trading relations which have then extended to other areas.

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(1) See also Note on "Arbitration Procedures" (Guideline I/4).

- (ii) Such agreements also help Western firms to penetrate East European markets and facilitate understanding of how the Communist systems operate. Sometimes, they can show the East European countries the on-the-spot advantages of diversifying their supply sources of highly sophisticated products.
- (iii) They improve the medium-term foreign currency solvency of East European countries which can accordingly boost the volume of their other orders to the West.
- (iv) By and large, industrial co-operation contracts promote the inter-penetration of applied technologies and make East European countries more familiar with Western technological know-how which is usually more sophisticated. In this way, Western firms can exert some influence on the economic development of the Eastern bloc.
- (v) Western firms profit from these contracts by a division of labour which facilitates the production of goods for which a comparative advantage exists in the East European countries (e.g. labour costs, locally available raw materials, etc.). This division of labour may help the East European countries to integrate more effectively into the West European context.
- (vi) "Industrial co-operation" could be one way of more effectively safeguarding and diversifying the West's supplies of raw materials (e.g. oil, natural gas, minerals, metals, wood).

C. Drawbacks for the Western countries

- (i) The division of labour created by the implementation of "industrial co-operation" contracts could have drawbacks for Western countries with unemployment to contend with.
- (ii) The size of industrial co-operation contracts could result in competition among the Western countries from which the East European countries stand to gain most. In this connection, improved co-ordination among the Western nations could prove valuable. Such co-ordination will be helped by the geographic enlargement of the EEC.

- (iii) Industrial co-operation is an accommodation to state trading countries' need for stable trade arrangements and assured markets at the expense of freedom of choice of seller and buyer which is central to the functioning of competitive markets in the West.
- (iv) Western companies might find themselves hostages in terms of commitment of capital and unfeasibility of withdrawal from such joint ventures, thus resulting in forced agreements to unfavourable conditions imposed by the East in order to to risk less of investment.

IV. RECOMMENDATIONS

The extension of industrial co-operation is profitable for both sides. It should be therefore the concern of the West to get the other side to agree on establishing rules making this form of co-operation possible. The Western proposals outlined above should be examined in conjunction with the concessions which the East European countries might be persuaded to make in return.

V. TALKING POINTS

- (a) The East seems to a certain extent to be willing to discuss the possibilities of Western capital investments in East European countries in the form of partnerships. Although the Soviet Union has up to the present not agreed to this form of co-operation and prevented other Eastern countries from accepting it, the Western side should make cautious attempts to persuade the East of the advantages of such a form of co-operation (solution of financing problems, intensive exchange of know-how and management experiences) which could be implemented in harmony with the existing legislation on property in the State-controlled economy of the East European countries.
- (b) It should be made clear that, in the Western economic system, the technology and know-how in which the East is particularly interested can be offered mainly by private firms and that it is therefore necessary to make these firms interested in co-operation. The negotiations on the commercial conditions of such co-operation will have to be left to the western enterprises concerned. The principle of competition should clearly be applicable.

- (c) The East European countries' reciprocal trade preferences (cf. the geographic pattern of trade under the long-term COMECON plan) seriously affect the opportunities for Western firms to develop inter-enterprise agreements.
- (d) The East European countries should be persuaded that there is a need to agree to discussions either within existing or projected multilateral frameworks.

GUIDELINE II/2(1)

I. CO-OPERATION WITH THE SOVIET UNION TO DEVELOP SOVIET OIL AND GAS RESOURCES

II. PROBLEM

1. The Soviet Union is reported to have reserves of oil and gas considerably in excess of likely domestic requirements in the foreseeable future. If an effort were made to exploit some of these reserves, a significant export surplus could be obtained, or, at least, the present export capacity maintained. The sale of extra quantities of oil and gas in Western markets would provide a means of financing imports of technology or consumer goods from the West or tropical and other produce from the developing countries, or of increasing Soviet economic power in the world at large.

2. The difficulty is that the bulk of Soviet oil and gas reserves are in relatively remote regions; exploration and transport would require heavy investment and to some degree the import of Western technology.

3. There is no evidence that the Soviet planners should have difficulty in allocating the investment resources sufficient to provide the gas and oil essential to Soviet development, though this sector of the economy will obviously compete with other sectors for these resources of men, equipment, R&D, transport, etc.

4. Traditionally, the Soviet exports have consisted to a large degree of raw materials and this situation is likely to continue. The market for Soviet manufactures, at least in Western countries, is limited, whereas the outlets for fuels such as petroleum and natural gas are likely to increase for some time to come. A major expansion in Soviet trade therefore is most likely to result from increased exports of these products.

5. The Soviet Union has chosen, largely for political reasons, to be the main supplier of oil and gas as well as other raw materials to the COMECON countries (excluding Romania). To ease the pressure on Soviet investment resources these countries have been induced to allocate some of their own scarce investment resources to oil and gas lines and other development projects. The long-term agreements whereby the smaller countries supply equipment and the Soviet Union pay later in raw materials is a very effective way of binding COMECON economies together.

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(1) Revised ED/EC/72/8 (Note No. 2) in the light of comments received from: the United States, the Netherlands, the Federal Republic of Germany and Denmark.

6. The Soviet Union will not have the same political inducement to link its economy to that of Western countries though there may be some advantage in negotiating particular deals with small countries, e.g. Finland, Austria. Major agreements with larger Western countries are likely, therefore, to have a strong commercial flavour.

7. As far as the West is concerned, there is a short-medium term problem linked to the rapidly changing pattern of relations between the oil producing LDCs and the traditional foreign concessionaires exploring for and exploiting their oil resources. However, behind what appears a rational commercial stand, on which hopefully the West could negotiate, lurks in several Middle East and North African countries an emotional antagonism because of post-colonial attitudes or because of suspected Western partiality in the current Israeli/Arab confrontation. Therefore, there is some justification for the West to try to diversify its sources of energy.

8. Furthermore, in the longer term, on purely economic grounds, certain Western countries and Japan might find it to their advantage to procure some oil and gas from the USSR. On the basis of what is already known of the various agreements concluded with the Soviet Union, the latter, by 1976, will be delivering 16 billion cubic metres of natural gas to Austria, the Federal Republic of Germany, Finland, France and Italy. Sweden, Denmark and Japan are potential buyers of Soviet gas. This is the case, too, with the United States. In the 1980s this country will need to import large quantities of natural gas, and the possibility of being supplied by the Soviet Union has already been raised. Soviet oil sales in 1970 to the industrial non-Communist countries amounted to about 41 million tons, as against about 48 million tons to the Communist countries and some 7 million tons to Yugoslavia and LDCs. For the purpose of comparison OECD Europe imported from outside its own area 634 million tons of oil, feedstocks, components and petroleum products in 1970.

### III. PROPOSAL

The West might test the extent of the apparent Soviet willingness to become a large oil and natural gas exporter to Western markets and the extent of Soviet interest in procuring from the West specialised equipment and technology.

#### A. Advantages for the West

- (i) Increased imports of Soviet oil and gas would provide the USSR with the foreign exchange it needs to become a more important market for Western goods.

- (ii) Increased imports of Soviet oil and gas would diminish excessive Western European dependence on the Middle East and North Africa for these products. There are obvious advantages in not relying too heavily on any one source for such vital goods. Even if the new source were equally inclined to exploit the situation commercially or prepare to exert pressure for political reasons, there would still be more security in dealing with two suppliers whose interests diverge somewhat, than with a single supplier.
- (iii) By 1980 the Soviet Union will in any case be a large supplier of natural gas to some European countries, and it would be in the Western interest if closer relations as to production and transport could be arranged. If many West European countries were supplied through the same pipeline there would be less danger of unilateral interruption of supply for political reasons.

B. Disadvantages for the West

- (i) From a political point of view, it is impossible to state with any certainty that an extension of Western resource commitments to the USSR oil and gas industry would be any less hazardous than expanded investments in the Middle East.
- (ii) It is not possible to give a precise figure of the outlays which would be required from the West to develop Soviet gas and oil resources. But, bearing in mind that these are located in difficult terrain and at considerable distances from the consuming centres, hundreds of millions of dollars(1) could be locked up for several years in the development of Soviet resources. Western oil companies might find it difficult to provide large funds for the exploitation of Soviet resources in addition to the \$500 billion envisaged for investment in the non-Communist world over the next ten years. It is particularly important that funds earmarked for development in the non-Communist world outside the OPEC areas which are "safe" for NATO countries should not be diverted.
- (iii) The problem of developing Soviet resources would be undertaken by firms rather than governments. A distinction might have to be drawn between the commercial advantage to a particular firm and the total effect on the Western position. One aspect of this might be the encouragement given to barter as a method of international trade.

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(1) USSR annual investment in the oil and gas industries amounts to over 3 milliard rubles.

- (iv) The degree of dependence on the Soviet Union which might result from this development would clearly be a matter of political concern, irrespective of the commercial advantages or disadvantages.
- (a) Judging by present trends there is little prospect of undue dependence for West European countries as a whole. Should Soviet exports of oil for instance rise to 75 million tons by 1975-1980 this would still represent only about 6% of likely imports by OECD Europe, though it should be remembered that the dependence of particular countries might be considerably greater.
- (b) If on the other hand there was a big expansion of Soviet oil capacity on the basis of Western co-operation, this overall dependence could well double. It would be for the political experts to judge whether such a development is desirable(1).
- (c) As regards natural gas, Western Europe, which has substantial reserves, would not depend unduly on any outside supplier. For certain regions, however, which would in fact be dependent on Soviet gas, the problem of substitution in case of need would have to be considered(2).

IV. TALKING POINTS

If the proposal were adopted it would be useful to consider the following points:

- (a) the USSR could be asked to give more information about the state of the reserves likely to be exploited and about its plans;
- (b) if Western participation were to be invited, Western experts should have proper opportunity of examining the terrain and discussing with Soviet counterparts the various technical problems involved;
- (c) the desirability of applying to these transactions the normal commercial practices of world trade should be stressed, i.e. reducing the barter element, increasing the rôle of convertible currency.
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- (1) It has been suggested by one member country that for security reasons NATO countries as a whole should not import from Eastern countries more than 10% of their oil and natural gas consumption.
- (2) See AC/127-D/395

GUIDELINE II/3(1)

I. EXCHANGE OF ELECTRIC POWER WITH EAST EUROPEAN COUNTRIES AND THE USSR

II. PROBLEM

1. There seems to be relatively little scope for any important exchange of electric power between Eastern and Western Europe.

2. The Soviet Union is a very great potential producer of electricity, but the main untapped sources are in Siberia and transport of electricity over long distances is still a very expensive matter.

3. The Soviet Authorities are at present concerned with the problem of transmitting electric energy from Siberia to Central Russia. They are faced with the task of building transmission lines of over 2,000-2,500 KW at unknown cost. On present showing it would therefore appear that Soviet interest in East/West co-operation in this field reflects more their need for Western technology and equipment rather than their capacity to supply substantial amounts of electric power.

4. As far as East European countries are concerned, they could do with more electric power. It is quite conceivable that in certain circumstances they might be prepared to import electricity both from the Soviet and the Western grids. Apart from this, however, there is no reason why local exchanges, taking advantage of different time zones and availability of surplus power in geographically contiguous regions, should not take place on a larger scale between Eastern European countries and the Western areas on their borders.

5. International linking of the electric power grids of European countries have built up since 1955. Exchanges of electric power across national frontiers have been growing at a faster rate than gross consumption. A large number of European countries, both East and West, have concluded contracts for long or short-term exchanges of power or for emergency supplies. These developments have led to the formation of three large, separate networks: one in Western Europe, one in Scandinavia and one in Eastern Europe. In the latter a central despatch office was set up in Prague to facilitate the connections between Bulgaria, Czechoslovakia, the GDR, Hungary, Poland, Rumania and the USSR. Some Western countries already have direct or indirect links with some Eastern countries (mainly through Czechoslovakia and Hungary).

(1) Revised ED/EC/72/9 (Note No. 3) in the light of comments received from the Federal Republic of Germany, and Denmark

6. Between Eastern and Western Europe exchanges of electric power, which are still at a low level, have grown since 1967 faster than their total trade. However, so far, the exchanges have been limited to occasional and emergency supplies which, on a net basis, have flowed from Eastern to Western Europe.

7. The concept of an all-European grid involves among other things the solution of the problem of economic transmission of power over very long distances. The construction of large-scale nuclear plants might possibly increase the economic advantages of linking Eastern and Western electricity grids.

8. In the ECE the idea of future supply of electricity from the East to the West is a favourite theme, and the Russians have proposed two specific projects both starting in White Russia; one supplying power via Poland and the GDR to Northern Germany, including West Berlin, the other designed to supply Germany, France and Switzerland. The problem is that the new high-tension lines over long distances would require heavy investment and might not prove very economic.

### III. PROPOSAL

That the West should not take any initiative in this respect but should be prepared to consider any proposal the other side might wish to make in the context of a CSCE.

#### (a) Advantages for the West

- (i) There might be greater opportunities for selling electrical equipment.
- (ii) For Western countries bordering on Eastern Europe there might be some advantages in limited exchanges of power.

#### (b) Disadvantages for the West

The only disadvantage would be the theoretical dependence on Eastern supplies, but as these would be quite limited in the foreseeable future, the question does not really arise.

### IV. RECOMMENDATION

That the proposal in III be accepted.

V. TALKING POINTS

- (a) Should the USSR and the Eastern European countries raise the question they should be asked to present their ideas supported by technical data.
- (b) The West should emphasise that solid economic considerations should be the basis for any developments in this field.

GUIDELINE II/4(1)

I. DEVELOPMENT OF CO-OPERATION IN THE TRANSPORT FIELD

II. PROBLEM

1. The Soviet Government has intimated that a CSCE could contribute to resolving "the question of pre-conditions for seeking solutions to problems such as . . . the organization of inter-continental transport"(2). In this context, the following aspects could be examined:

- the administrative and statutory limitations, currently in force in the transport field, which hinder East/West trade;
- standardisation of technical and safety regulations;
- standardisation of equipment (including containers);
- establishment of links between existing transport networks (rail, road, waterway, sea and air);
- development of transport infrastructure, mainly in the Soviet Union.

2. The examination of East/West land transport problems has been entrusted to the ECE's "Committee on Inland Transport" (Geneva). This Committee has made considerable progress during the last few years in its endeavours to remove the obstacles hindering transport development. This is shown by the increasing number of East/West technical agreements. Useful co-operation concerning sea and air transport is taking place in IMCO and ICAO especially as regards questions of security. In other respects the scope for global treatment of these forms of transport is limited. Commercial shipping is no doubt best served by the free choice of transport, and air transport is likely to be developed by means of bilateral agreements.

3. Under present circumstances it seems unlikely that the evolutionary dynamism of East/West trade is suffering because of transport difficulties. Most forms of transport are already dealt with by international organizations. No doubt improvements could be envisaged and it would be desirable if countries like Sweden, Austria and Switzerland were also associated with Western proposals at an early stage.

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- (1) Revised ED/EC/72/13 (Note No. 5) in the light of comments from Denmark and Norway  
(2) Kosygin at the Communist Party Congress, Moscow, April 1971

(a) Rail Transport

4. Several East European countries have already acceded to the International Conventions on the Transport of Goods and Passengers (CIM and CIV). By contrast the Soviet Union has not yet signed these Conventions although it is showing greater interest; for example, it has sent observers to international conferences concerned with a possible revision of the Conventions.

5. Agreements in principle have been concluded in a number of technical areas between the International Union of Railways (grouping Western railway systems) and the Organization for the Collaboration of Railways (which includes the countries of Eastern Europe and the Soviet Union). Some projects will be implemented before the end of this decade, including:

a unified system of automatic coupling for international goods wagons;

standardised braking systems, automation, etc.

6. A separate problem is raised by the possibilities of Western participation in developing the Soviet Union's infrastructure (e.g. Kosygin's proposal for the building of a second Trans-Siberian railway; standardisation of container transport linking Siberia with Western Europe; Western participation in the manufacture of containers and the production of handling equipment) which is not currently under examination by existing international bodies.

(b) Road Transport

7. Various East/West bilateral agreements have been signed, regulating freight transport by road which still operates, however, on a quota basis. The USSR has signed agreements on International Road Transport, covering freight and passenger transport, with Denmark, Austria and Sweden.

8. As regards passenger transport, the operation of non-scheduled bus services is regulated by the International Geneva Agreement (1949) which allows non-stop journeys, but neither the acceptance of passengers en route nor on the return trip by the empty vehicles. These international provisions, recognised by the East European countries, have been supplemented by bilateral agreements, but once again, as in the case of freight transport, the USSR and the GDR are the most hesitant. In addition, a start has been made on a European network of regular bus routes; several East European countries are participating, but the USSR has hitherto been reluctant to co-operate in extending it. The establishment of a scheduled London-Moscow service has been under discussion for more than two years without any concrete results so far.

9. Currently, a large number of partial and/or bilateral agreements are being concluded on such subjects as road safety, highway codes, road signs, and regulation of technical requirements (e.g. vehicle weight and size). But the lack of standardisation reduces the effectiveness of any solutions adopted.

10. As regards infrastructure, transport could certainly be facilitated by improved road and motorway network links between the two parts of Europe. This presupposes an East/West exchange of information on mutual development planning.

(c) Waterway transport

11. The establishment of links between the large European river networks, particularly the Rhine and Danube, deserves study. The East European countries are very interested in inland water navigation and such link-ups could facilitate the transport of heavy freight between certain countries in Europe and Asia. However, the problems involved here are so complex that any solutions could have only a very remote effect on the volume of trade.

(d) Sea transport

12. Some Western countries (e.g. France and the Netherlands) have signed navigation treaties with East European countries, although this practice is far from general. Furthermore, the East European countries, especially the Soviet Union, have shown a growing interest in those international organizations and conferences dealing with sea transport matters such as freight. Previously the Soviet Union opposed the system of shipping line conferences using, as at the UNCTAD Commission on Maritime Transport, the argument that it was a device to exploit developing countries. However, with the rapid development of its own merchant fleet, the USSR is apparently becoming more aware of the problems of profitability. For example, at the beginning of 1971, it joined the Baltic International Maritime Organization.

13. The acceptance of the IMCO Convention (1965) on Facilitation of International Maritime Traffic by the USSR, Poland and Czechoslovakia represents a useful step forward. It has not yet been accepted by Romania and Bulgaria.

(e) Air transport

14. The USSR did not become a full member until 1970 of the International Civil Aviation Organization, on which the other East European countries except the GDR were already represented. Certain East European countries - Bulgaria, Poland and Czechoslovakia - have subscribed to the International Air Services

Transit Agreement of 7th December, 1944. In view of the importance of air transport in the Soviet Union and the other East European countries, it is likely that, in the future, these countries will show a greater desire to participate in the work of the various competent international bodies. However, their co-operation in European bodies (including the European Civil Aviation conference) has run into serious difficulties because of the incompatibilities of the two economic systems involved.

15. Nevertheless, consideration could be given to a number of purely technical and/or administrative problems which are at present bedevilling air transport (e.g. passenger safety standards, reciprocal recognition of certificates of airworthiness, etc.). No Eastern country has as yet subscribed to the ICAO 1960 agreement relating to certificates of airworthiness for imported aircraft.

(f) Linking of other transport networks

16. The feasibility of linking up East/West oil and gas pipeline networks could only be examined on the assumption that Western countries become involved on a large scale in the development of the Soviet Union's oil and natural gas resources. Moreover, the evolution of the USSR's domestic network does not have any bearing on intra-European transport co-ordination, but is one aspect of the development of East/West trade.

17. The linking up of electricity networks is also a matter to be dealt within the framework of general economic co-operation.

III. PROPOSALS

18. Before agreeing to give further consideration to ambitious, long-term projects to link up existing transport networks which would first require more detailed information from the East European countries, the Western nations could propose that priority be given to a review of ways of removing the present obstacles, for which the East European countries are essentially responsible, to the development of passenger(1) and freight transport.

19. East European countries could therefore be invited to state their intentions with regard to the adoption of measures:

- (i) to accede, if they have not already done so, to the various international conventions governing road, rail sea and air transport;

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(1) This measure does not consider the wider political aspects of the freer movement of individuals.

- (ii) to modify their administrative practices which at present hinder the development of transport: increased road freight transport quotas, freedom of transit, return journey loading, regulations governing privately operated transport, procedures for granting authorisations, creation of regular bus services linking the various European capitals;
- (iii) to standardise the administrative and technical regulations governing:
  - (a) road safety (signals, highway code, vehicle weight, size and technical requirements);
  - (b) railway safety (braking system, automation, signals, length and safety of goods trains);
  - (c) air traffic safety (certificates of airworthiness).

A. Advantages for the West

- (i) Freedom of movement for goods and persons is generally considered as one of the conditions for the normalisation of East/West relations. Progress in this direction is beneficial to the extent that it promotes the development of trade and tourism.
- (ii) For obvious geographic reasons, the East European border countries will be the first to benefit, and this could facilitate their relations with the West.

B. Disadvantages for the West

None in economic terms.

IV. RECOMMENDATIONS

The proposals set out in paragraph 19 could be submitted to a CSCE either on the initiative of the Western nations, or in response to a proposal from the East European countries on longer-term projects.

V. TALKING POINTS

- (a) If sufficiently practical proposals were made by the East European countries on these various issues, a more detailed examination of these technical questions could, depending on the case, be entrusted to:
  - the Committee on Inland Transport of the ECE (Geneva);

- the Intergovernmental Maritime Consultative Organization (IMCO) and other international maritime organizations;
  - the International Civil Aviation Organization (ICAO); and to their appropriate technical committees.
- (b) The liberalization of transport will contribute to a better use of transport services on a European, and even wider, scale, not only in technical, but also in economic terms. One result will be to clarify the problem of inter-transport competitiveness.
- (c) The West might prefer not to commit itself on projects dealing with infrastructure and the linking of transport networks, before these have been specified and examined in greater depth.
- (d) If these proposals are taken up by the East European countries at a CSCE, Allied Governments could refer them for study to their national research bodies, the ECE (Geneva) and its specialised auxiliary agencies, or to other appropriate bodies.

GUIDELINE II/5

I. SIGNATURE BY ALL PARTIES TO A CSCE OF THE UNIVERSAL  
COPYRIGHT CONVENTION AND THE BERNE CONVENTION

(See Dossier on Cultural Relations; Volume  
One, Part One, Chapter 5, paragraphs 217-222)

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GUIDELINE II/6(1)

I. IMPROVED PROTECTION IN EUROPEAN COMMUNIST COUNTRIES OF WESTERN INDUSTRIAL PROPERTY RIGHTS

II. PROBLEM

1. The major international agreement establishing basic rules on industrial property rights protection (patents and trademarks) is the International Convention for the protection of Industrial Property ("Paris Union"), signed in 1883 and last revised at Stockholm in 1967.

2. The USSR ratified the Paris Convention on 1st July, 1965. With the exception of Albania, all East European countries had adhered well before that date and maintained their membership after the change of régime following the second World War. GDR membership claim is disputed by many member countries and it has never attended a substantive or administrative meeting of the Paris Union. The Warsaw Pact may raise this fact as an indication of "discriminatory practices" by the West.

3. Eastern countries limit patent protection to periods of 15 to 20 years, similar to the practices of Western industrialised countries. Trademarks are registered for an initial ten-year period, renewable for like periods. Within all the Communist nations the sphere of industrial property is centrally administered. The agency entrusted with this administration is not only a centre of authentication and legislation but also evaluates inventions and selects those most appropriate for development; it works in close co-operation with the national planners.

4. "Know-how" is not the subject of any separate system of international protection and is not covered by the Paris Convention. In the East, however, it receives broad recognition, both national and regional.

5. One major difference between the Western and Eastern approaches to protection should be underlined. The West accords an exclusive monopoly of ownership and control to the patent holder. In the East, in practice the right of the holder is not

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- (1) Revised ED/EC/72/11 (Note No. 4) in the light of comments received from the United States. According to information available to the United States there have been no significant problems with the protection of Western patents and trademarks since the Soviets adhered to the Paris Union in 1965. Therefore, the United States Authorities would prefer to have this issue dropped unless the experience of other NATO countries is different from their own.

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exclusive in the sense that the only possible users and bidders are state entities and these cannot be prevented from exploiting the patent as long as compensation, whatever its amount, is paid to the inventor. In all Eastern countries foreigners can be granted patents allowing exclusive rights over the use of an invention. Exploitation of a patent in these countries, however, depends upon negotiating a licensing arrangement with a state enterprise or organization.

6. Several East European countries have in the last few years enacted new trademark legislation in an effort to align their systems with international protection. Romania, Czechoslovakia and Hungary participate in the Agreement of Madrid concerning the international registration of trademarks of 1891. The GDR membership is contested by several member states. It should be pointed out, however, that this Convention, which was revised in 1967, has not achieved great importance in the West; a number of major Western countries have not ratified it. In 1936, the USSR recognised in law the value of the trademark. Further laws of 1962 and 1967 have added to the protection already given to domestic trademarks.

7. In the case of patents, inventors' certificates, trademarks and all other forms of industrial property, foreign citizens and corporations are eligible for the same protection in a Communist country as local parties. The only condition is that the applicant's own country must extend reciprocity of treatment. This restrictive condition poses no problem to nationals of Madrid Convention member countries seeking patent and trademark rights in Eastern European countries. Under the Convention, each signatory is obligated to accord to citizens of the other members the same treatment that it accords to its own citizens relative to acquisition and protection of patent and trademark rights.

### III. PROPOSAL

The USSR and the Eastern European countries should be urged to continue strengthening their patent and trademark procedures relative to protection of foreign rights. Albania might also be asked to adhere to the Paris Union.

#### A. Advantages for the West

- (a) In the last resort better protection of the rights of Western firms and individuals would probably result in a greater flow of exchanges of information at the technical and scientific levels.
- (b) Western firms and individuals will be confident of being paid the royalties and fees due to them.

B. Disadvantages for the West

None.

IV. RECOMMENDATION

That the proposal in III above be adopted.

V. TALKING POINTS

- (a) For Communist countries Western inventors should not be assimilated to their Communist counterparts who more often than not receive from their inventions limited material benefits but plenty of honorific rewards.
- (b) Eastern law as regards patents, trademarks and trade names should be amended to allow payments in convertible currencies, to improve the protection of industrial secrets and to provide for proper compensation should the State insist on taking over specific industrial property rights.
- (c) Western holders of industrial property rights should be allowed to check physically whether the licensing contracts are being observed by the Communist firms.

GUIDELINE III/1(1)I. DEVELOPMENT OF EAST/WEST FINANCIAL CO-OPERATIONII. THE PROBLEM

1. If the current proposals for possible East-West industrial co-operation were to be put into effect, even partially, the finance which would have to be raised would greatly outstrip the already high level of export credits granted by Western countries to the Eastern countries since 1958.

2. The development of trade at a faster rate than in the past, and with a greater number of business partners, and the introduction of forms of co-operation which until now have been relatively unknown in East-West relations (joint firms, Western stake in Eastern companies, participation in the development of whole areas and in major public works ventures), are factors which will doubtless encourage the Eastern countries to seek to introduce greater flexibility in their monetary and financial dealings with the industrialised Western countries by expanding them beyond the bilateral stage.

(a) Monetary relations

3. In the monetary sphere, the non-convertibility of Eastern currencies greatly reduces the scope for a multilateralisation of payment. Uncertainty over the real exchange rates and the fact that the countries in question are not members of the IMF are also serious obstacles(2).

4. To overcome these difficulties and to avoid recourse to clearing accounts, the Western countries have generally agreed to use a convertible Western currency (dollars, sterling or their own currency), in dealings with their Eastern trading partners. This practice has its advantages for the Eastern countries. It broadens the range of their exchanges with the West since the surpluses deriving from their trade with a Western country can be freely used elsewhere. In this connection, it is worth pointing out that the Soviet Union, although indebted to the United Kingdom, devotes a large part of its surplus trade balance with that country to purchases in other countries generally in the sterling area. In the 1960s, and especially in 1969, certain Eastern countries held on to large amounts of German currency with an eye to a revaluation of the Deutschmark. In this way they were subsequently better able to bear the increase in the cost of credits granted in that currency.

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- (1) Revised ED/EC/72/26 (Note No. 10) in the light of comments received from the United Kingdom and the United States.
  - (2) The value of the paper rouble in Western banks is well below the official Moscow rate. In March 1972, in Brussels, a little over 4 roubles could be obtained for 1 US Dollar.

5. Soviet gold sales were an important aspect of East-West monetary relations until 1965. They played a major part in the increase in official gold reserves in the West, as will be seen from the following table based on statistics issued by the Bank for International Settlements. After 1965, sales of gold petered out, except in 1967 when, according to the IMF, the Eastern countries sold \$15 million worth of gold. (It is possible that this sale was pushed through by Rumania rather than by Russia).

Millions of dollars	1956	1957	1958	1959	1960
<u>Soviet gold sales</u>	150	260	220	250	200
Increase in gold reserves of Western Central Banks	495	705	670	695	340
Proportion	33%	37%	33%	36%	59%
	1961	1962	1963	1964	1965
<u>Soviet gold sales</u>	260	200	550	450	550
Increase in gold reserves of Western Central Banks	590	330	840	725	240
Proportion	44%	61%	65%	62%	229%

6. While it is likely that after 1965 the Russians found it necessary temporarily to discontinue official sales because stocks were dwindling, the fact that the break has lasted such a long time is best explained by the availability of Western credit and the desire of the Soviets to accumulate international financial reserves as a cushion against unforeseen payment deficits brought on by poor harvests or other causes(1).

(b) Financial relations

7. A fairly complex pattern of East-West financial relations already exists, although it is the Eastern countries which have taken advantage of the free enterprise system to set up in the West, while at the same time withholding similar facilities on their territory from Western financial institutions. It is difficult to make an accurate appraisal of East-West financial relations and their impact on the economies of the Communist countries because these countries publish no details of their balance of payments position or their foreign debts or assets.

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(1) In 1971 these reserves were put at \$2 milliard, i.e. 5% of the bullion reserves of IMF member countries

8. In addition to their Central Banks, which are naturally qualified to handle financial transactions with foreign countries, all the East European countries have a foreign trade bank responsible for the opening of clearing accounts in connection with the trade and payments agreements which these countries enter into with their trading partners, mainly within the COMECON and the Third World. These banks also perform the functions of Western merchant banks. They are authorized to open convertible foreign currency accounts for foreign firms and national enterprises, to open and administer fixed deposit accounts, to bill debtors on behalf of customers, to issue letters of credit, to buy and sell foreign currency and to extend banking guarantees. Furthermore, the East European foreign trade banks undertake the financing of complex barter and switch-trading transactions. Lastly, in certain cases they may act as go-betweens for importers and exporters.

9. It is mainly the Soviet Union which has developed its banking activities abroad, in some cases by taking over from existing establishments. This was the case, for instance, with the Moscow Narodny Bank Ltd. and the Banque Commerciale pour l'Europe du Nord. The first of these, established in London is very active in raising finance for East-West trade, in particular through the granting of short-term trade credit and the discounting of bills. It also played an active part in the Soviet gold sales. The second of the banks referred to above appears to be concentrating more and more on foreign exchange transactions and operations on the money market. It also helps to finance East-West trade, but on a more modest scale than the Narodny Bank.

10. In addition to these two major banks, the Russians have a banking house in Zurich and have just opened another in Frankfurt. Several years ago, the London Narodny Bank opened a branch in Beirut. Moreover, the Soviet Union engages in financial activities through its insurance companies abroad. These are the Black Sea and Baltic Insurance Company in London, the Schwarzmeer Ostsee Transporversicherungs A.G. and the Garant Versicherungs A.G. The latter specializes in credit insurance for exports to Eastern countries.

11. For the purpose of improving trade and economic co-operation between Rumania and France, the Rumanians, in association with a French financial group, opened a bank in Paris on 16th February, 1972. The Czechoslovak Foreign Trade Bank has a branch in London. Lastly, a number of East European countries remained members of the Bank for International Settlements after the Second World War, but they play no part in its activities.

12. The BIS annual reports reveal that, since its creation, the Eurodollar market has been used by the Eastern countries (including the Soviet Union) to place currency and, above all, to acquire comparatively large amounts of dollars. Thus, at the end of 1967, the position vis-à-vis Eastern Europe of the European banks which communicate data to the BIS(1) was as follows: liabilities \$470 million, assets \$770 million, i.e. a net credit for the group of "eight"(1) of \$300 million. At the end of 1968, the "eight" had a credit balance of \$290 million. In 1969 the dollar position was virtually balanced (\$30,000,000 in favour of the East), but the latter had a debit equivalent to \$160 million in Eurocurrencies. In 1970 the Eastern countries again had a debit balance on the Eurodollar market (\$430 million), but they had a credit balance equivalent to \$120 million in Eurocurrencies.

13. Although full details of the transactions alluded to above are not available, it will be recalled that Hungarian loans on the Eurodollar market reached \$145 million between 1968 and 1971 and that Rumania raised \$13 million. One of the two COMECON banks, the International Bank for Economic Co-operation is currently negotiating sizeable loans. It has recently been granted a medium-term credit of \$20 million by a consortium of Western Banks. The Crédit Lyonnais has also apparently raised a \$60 million loan for the COMECON.

14. The International Bank for Economic Co-operation, with a capital of 300 million "transferable roubles", mainly acts as a clearing house for intra-COMECON transactions. However, it also handles an increasing volume of convertible currency deposited with it by trading companies in the COMECON countries and foreign correspondents. This bank would, therefore, probably in future be in a position to centralise currency assets held by COMECON countries.

15. The International Investments Bank (IIB) is a more recent creation. It has a capital of 1,056 million roubles of which 30% is payable in convertible currency or gold. It is likely to play a big rôle in East/West financial relations by arranging, inter alia, the financing of investments by joint (East/West) firms or by making credit available for co-operative East/West projects in the field of technology or the development of Siberian sub-soil resources. This bank is empowered to float loans on the international financial markets and participate in the financing of work undertaken by joint concerns. It is possible that in future the IIB will become the COMECON's main go-between for negotiating and obtaining lines of credit from the Western Countries. This would make for a co-ordination of requests from Eastern countries and would somewhat restrict the latter's freedom of manoeuvre.

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(1) Federal Republic of Germany, Belgium, France, Italy, Netherlands, United Kingdom, Sweden, Switzerland.

16. Over the last ten years financial co-operation between East and West has been mainly concerned with the provision of export credits. The volume of credits granted by the countries of the Alliance has grown to such an extent that, by the end of 1970, the sums advanced to the European Communist countries had reached some 4.7 milliard dollars, of which \$2.5 milliard were for the East European countries and \$2.2 milliard for the Soviet Union. Of these, 65%(1) were long-term credits, which in some cases extend well beyond ten years.

17. The vast majority of export credits are at present granted by specialised Western financial bodies, and with an official guarantee(1). There are some Ad Hcc consortia and a number of joint East-West institutions which also grant credits(2). A case in point is CENTROFIN in Vienna, in which the British merchant bankers Kleinwort and Benson participate.

18. Despite several attempts to harmonize the terms and conditions applying to the grant of credits to the East (duration, rates of interest, etc.), the Western countries have been unable to reach any broad agreement among themselves.

19. So far, the Communist countries have satisfactorily met their liabilities. Nevertheless, too great an increase in credits of all sorts granted to Eastern Europe and the Soviet Union entails the risk of future payments difficulties which, even if insolvency is unlikely, would, nevertheless, slow the rate of East-West trade expansion.

(c) Compensation

20. A dispute still exists between certain Eastern countries (especially the Soviet Union) and Western countries (particularly the United States) concerning the payment of debts incurred by the former prior to the First World War (Russian loans), between the two Wars, during the Second World War (lend-lease, civilian supplies, etc.) and as a result of the nationalisations which came in the wake of political changes in Europe after 1945. Although partial agreements have been reached between the Eastern countries and some of the Western countries, the yearly repayments made on these debts do not amount to much. The final settlement of this problem on the basis of a commitment by the Eastern countries to reimburse, under arrangements to be decided, a mutually acceptable figure, would certainly help to foster East-West economic and financial co-operation.

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(1) See C-M(72)13

(2) Without official Western support

III. PROPOSALS

In the light of progress made at a CSCE in the field of industrial co-operation and the promotion of trade, the countries of the Alliance and the Warsaw Pact countries could consider the following matters:

- (i) practical arrangements for financing planned projects;
- (ii) the possibility of Western banks and financial institutions opening branches in the East;
- (iii) the East European countries' burden of indebtedness - through the extension of credits - in relation to their future export potential;
- (iv) a relaxation of the bilateralism governing payments within the COMECON, with a view to the introduction of genuine convertibility of the balance of payments on current account between the countries in this grouping; this convertibility should gradually be extended so that the convertible currency obtained by COMECON countries from the exchange of goods and services within the COMECON area can be used elsewhere, in the West or in the Third World.
- ┌(v) certain Eastern countries' continued reluctance to settle defaulted debts.┐(1)

A. Advantages for the West

- (i) As a major economic power and the world's second largest gold-producing country, the Soviet Union should be able to take part in world-wide financial and monetary arrangements. Its participation should increase trade and financial movements not only between the industrialised West and the countries of the East, but also between the latter and the Third World.
- (ii) Expansion of the financial links between East and West could put the development of East/West trade on a firmer footing than the present method under which Western exporters are assisted by means of bigger and bigger credits.

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(1) The United Kingdom suggests deletion of sub-item (v)

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- (iii) It is difficult to conceive of genuine industrial co-operation in the absence of suitable legal, financial and organizational arrangements. The existence of such arrangements would give Western firms a sense of security and make it easier to reach agreements with Eastern companies.
- (iv) There is a positive advantage to the West in greater participation by East European countries in world trade since this would lessen their economic dependence on the Soviet Union.

B. Disadvantages for the West

- (i) The danger inherent in any expansion of financial co-operation (and indeed of any form of technical and economic co-operation) is that the Soviet Union, to further its policy of dominating the COMECON, will use the advantages stemming from increased co-operation with the West to strengthen its political and economic hold over the Warsaw Pact. In this connection there would seem to be two opposing schools of thought within the COMECON: the first (favoured by several East European countries) is for encouraging all forms of world-wide co-operation, while the second (advocated by the Soviet Union and the GDR) seeks to consolidate a separate Socialist entity and make it, if not completely self-sufficient, then at least as autonomous as possible.
- (ii) As regards credit terms for CEMA countries, it should be remembered that there is not too much room for manoeuvre before such terms become economically undesirable in that the credit returns provided are so low that a transfer of resources results.

IV. RECOMMENDATION

Within the limits imposed by their own financial requirements and those of their traditional Third World trading partners and of countries friendly to the West, the countries of the Alliance should agree to examine bilaterally or multilaterally, in the appropriate fora, ways and means of increasing financial co-operation with the Warsaw Pact countries.

V. TALKING POINTS

- (i) As a token of their willingness to co-operate in the financial field the Eastern countries could be invited to negotiate the settlement of their debts dating from the First and Second World Wars and subsequent events.

- (ii) They could be requested to explain the criteria they use to fix the parity between their currency and Western currencies. The need to revise certain of these exchange rates by common consent could be suggested.
- (iii) The problem of the facilities to be granted to establishments wishing to open branches in the Eastern countries could be brought up during discussions on practical ways of broadening financial co-operation.
- (iv) The attention of the Communist countries could be drawn to the inadequacy of their balance of payments statistics.

GUIDELINE III/2(1)

I. ENCOURAGEMENT OF THE EASTERN COUNTRIES TO SEEK PARTICIPATION IN THE INTERNATIONAL MONETARY FUND (IMF)

II. PROBLEM

1. Although the Soviet Union was represented at the Bretton Woods Conference and took part in the negotiations, it has always refused to join the International Monetary Fund which was created on 22nd July, 1944, during that Conference. Poland and Czechoslovakia, who were among the founders of the IMF, are no longer members. The first withdrew on 14th March, 1950 and the second was expelled at the end of 1954 for failing to comply with the obligations imposed on member countries(2).

2. The reasons for the lack of interest shown by the Warsaw Pact countries in the IMF are both political and practical. As regards the political aspect, the Soviet concern to keep the satellites in maximum possible isolation during the fifties, and even later, explains why these countries were unable to seek membership of an organization which the Soviet Union had rejected. The latter has regarded the IMF as an instrument used by the West to control international trade and monetary relations. Had it joined the International Monetary Fund, the Soviet Union would have been compelled to give reasons for the restrictions it was placing on foreign trade. Nor was it in the interests of the Soviet leadership to encourage a body set up for the purpose of liberalising trade and payments at the very time when they were working towards the creation of a rival economic community (COMECON) through which they were then to keep a firm grip on the economy of Eastern Europe.

3. Since 1964, however, there has been a gradual trend in COMECON towards the establishment of a system providing for multilateral settlements between Communist countries and towards financial transactions on the international money markets. In July 1971 COMECON adopted a long-term programme with a view to making the currencies of its member countries (particularly the rouble) convertible for the purposes of intra-COMECON transactions.

4. Membership of the International Monetary Fund would enable the Communist countries to obtain financial facilities, and particularly the possibility of purchasing hard currencies from the Fund in exchange for deposits in national currencies, which

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- (1) Revised ED/EC/72/20 (Note No. 9) in the light of comments received from the United Kingdom, Canada and the United States. Canada and the United States do not consider that this measure paper should be included on the CSCE Agenda.
- (2) Cuba was expelled on the same grounds in 1965.

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would be redeemed over a period of from three to five years. The Eastern countries could also benefit from the other facilities afforded to members of the Fund: standby arrangements and special drawing rights.

5. Moreover, by joining the IMF, the Eastern countries could become members of the International Bank for Reconstruction and Development. Membership of the World Bank would enable some COMECON countries with little industry (Romania and Bulgaria) to obtain long-term loans from that organization, as has been done by Yugoslavia.

6. There are, however, a number of problems to be solved before consideration can be given to admitting the Eastern countries to the International Monetary Fund.

7. The first stems from the fact that the Communist countries are reluctant to provide information on their financial and economic situation, especially where any information they supply is likely to be closely scrutinised by Western observers.

8. The second problem, which is even more difficult to resolve, lies in the present value of Eastern currencies (especially the rouble). The members of the IMF are required to determine the parity of their currencies in agreement with the International Monetary Fund. For the Eastern countries and the USSR, this procedure could lead to the devaluation of their currencies. In addition, the Soviet Union, in particular, would have to announce its intention of making its currency convertible.

### III. PROPOSAL

Subject to a more detailed study by the appropriate government services and NATO financial authorities, member states could encourage the Eastern countries to seek participation in the IMF provided that they undertake to comply with the relevant obligations.

#### A. Advantages for the West

- (a) The International Monetary System, which is at present being overhauled, would have a broader base.
- (b) The trends towards liberalisation appearing in certain Warsaw Pact countries would gain strength.
- (c) It would be easier to finance a larger volume of trade between East and West.
- (d) A large amount of basic data on such functions as the balance of payments would become available to Western observers, who would thus find it easier to keep track of economic developments in the Eastern countries.

B. Disadvantages for the West

- (a) Wherever the United States, the United Kingdom and the Common Market Six took opposing positions in the IMF, the Warsaw Pact countries could, as IMF members, exercise a right of veto on major issues by combining their votes. Their position would be even stronger if they were able to persuade certain Third World countries to vote with them.
- (b) IMF meetings could be used by the Eastern countries for anti-Western propaganda.
- (c) The efforts to place the International Monetary System on a sounder footing could be slowed down if the IMF were to receive applications from Communist countries in the near future.
- (d) Should the USSR join the IBRD, it might endeavour to alter aid programmes and the IBRD's loan policy in such a way as to further its own penetration of the Third World.

IV. RECOMMENDATION

Should there be a broad East/West consensus on the need for action to develop East/West trade on a large scale, the proposal set out in Section III above should be examined by the NATO countries.

V. TALKING POINTS

- (i) COMECON is aiming to achieve a measure of convertibility for the rouble with a view to promoting intra-COMECON trade in the long term. Since this is so, why should it not carry the process a step further by examining with the West ways and means of achieving a genuine multilateralisation of payments?
- (ii) A number of Warsaw Pact countries belong to GATT or are planning to join. Membership of the IMF would also be useful and would help the development of economic relations with non-Communist countries.
- (iii) The Communist countries will not need to take a decision on the free convertibility of their currencies until after a transitional period which might be protracted. A number of IMF member countries do in fact invoke Article XIV of the Fund's Articles of Agreement to keep their currencies inconvertible.

GUIDELINE III/3(1)

I. CREATION OF A MECHANISM FOR MULTILATERAL SETTLEMENT

II. PROBLEM

One of the main impediments to East-West trade is the chronic shortage of hard currencies in the Eastern countries.

2. A system designed to inject flexibility into the bilateral payment agreements then in force was devised by the United Nations Economic Commission for Europe in 1957. This ad hoc machinery was only shortlived for a number of reasons, the two main ones being:

- the little interest shown by the East in this move;
- the fact that during the Sixties most of the Western countries were able to persuade the Eastern countries to accept the use of a convertible Western currency when doing business with them.

3. As matters now stand, transactions with most of the Western countries (2) are no longer carried out on a bilateral basis (clearing account). All Eastern countries can open convertible currency accounts, replenished, in particular, from their sales of goods, in all Western countries. All the Eastern countries may also buy or sell currencies in the countries in which they have accounts in exchange for the currencies of other Western countries.

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- (1) Revised ED/EC/72/16 (Note No. 6) in the light of comments received from the Netherlands and Denmark. Canada requests further study before committing herself on this paper and the United Kingdom is strongly opposed to it. The United States does not wish this paper to be included on the CSCE Agenda.
- (2) Excepting Finland, Iceland, Greece, Turkey and Portugal

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4. Nonetheless, the present machinery is unsatisfactory in that an Eastern country may at any time simply run out of convertible currencies. When this happens, trade comes to a standstill and can be revived in four ways:

- (i) by increasing Eastern countries exports;
- (ii) by obtaining additional bilateral credits which may take the form of:
  - export credits;
  - government-to-government credits;
  - short-term arrangements between central banks;
- (iii) by floating loans on the Western money markets;
- (iv) by resorting to a commonly financed fund providing the Eastern countries with the wherewithal to overcome their temporary difficulties.

III. PROPOSAL

With this last mentioned solution, it would be possible to devise machinery for multilateral settlement which, during the early stages at least, would be financed primarily by the main exporting countries of the West. After the initial period, the Eastern countries could participate on an increasing scale in this common funding operation. Ultimately, the fund could grant credits direct to the International Bank for Economic Co-operation (COMECON Bank) which would be responsible for their distribution among the East European countries. The common fund could likewise extend credits to Western countries in deficit with the countries of the East.

This proposal could not be applicable unless answers were found to the following problems:

- (i) designation of a central body to administer the funds (for example the Bank for International Settlements to which certain Eastern countries belong);
- (ii) size of the contribution of each of the countries concerned;
- (iii) creation of organic links between the central body and the various services which finance international trade in each country;

- (iv) adoption of an accounting unit. This pre-condition raises serious problems given the artificial parities of the currencies of East Europe and the USSR;
- (v) fixing of the terms and conditions governing the reimbursement of the funds advanced.

A. ADVANTAGES FOR THE WEST

Machinery of this kind should:

- (a) allow the Western countries to step up their exports to the East without having to grant export credits on a bilateral basis;
- (b) save those countries from costly rivalry over their Eastern credit policy;
- (c) assist the common quest for more realistic monetary parities, the first step towards the future convertibility of the East European and Soviet currencies;
- (d) increase the freedom of action of the East European countries to the extent that a certain measure of multilateralisation of the means of settlement would lessen their dependence on trade with the USSR.

B. DISADVANTAGES FOR THE WEST

- (a) Immobilisation of substantial resources in a common fund with an intricate system of management.
- (b) Restriction of bilateral approaches in the commercial field which have hitherto made it possible to expand East/West trade.

IV. RECOMMENDATION

Should there be broad agreement between East and West on the need for definite measures to stimulate trade, the question of machinery which would provide greater flexibility in the financing of such trade would warrant careful consideration.

V. TALKING POINTS

- (i) The current system has contributed towards the rapid development of East/West trade but there

are grounds for believing that as this trend develops the financial resources used so far will soon reach their limits;

- (ii) Multilateral arrangements would make it possible to cut down even further on the practice of switch trading which is simply a form of triangular or multilateral barter operations with all the drawbacks, limitations and expenses which these operations entail.
- (iii) A proposal of this kind would be in line with the frequently expressed wishes of the East European countries (Poland, Hungary and Czechoslovakia) for a certain measure of convertibility within COMECON.

REFERENCES OF GUIDELINE PAPERS

I. GUIDELINES ON CO-OPERATION IN THE FIELD OF TRADE

- I/1 see ED/EC/72/17(revised) (Note No. 7)
- I/2 see ED/EC/72/27 (Note No. 11)
- I/3 see ED/EC/72/29 (Note No. 12)
- I/4 see ED/EC/72/35 (Note No. 14)
- I/5 see ED/EC/72/39 (Note No. 16)
- I/6 see ED/EC/72/40 (Note No. 17)
- I/7 see ED/EC/72/41 (Note No. 18)
- I/8 see ED/EC/72/36 (Note No. 15)
- I/9 see ED/EC/72/34 (Note No. 13)

II. GUIDELINES ON INDUSTRIAL CO-OPERATION

- II/1 see ED/EC/72/10 (Note No. 1)
- II/2 see ED/EC/72/8 (Note No. 2)
- II/3 see ED/EC/72/9 (Note No. 3)
- II/4 see ED/EC/72/13 (Note No. 5)
- II/5 see ED/EC/72/11 (Note No. 4)
- II/6 see ED/EC/72/11 (Note No. 4)

III. GUIDELINES ON FINANCIAL CO-OPERATION

- III/1 see ED/EC/72/26 (Note No. 10)
- III/2 see ED/EC/72/20 (Note No. 9)
- III/3 see ED/EC/72/16 (Note No. 6)